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2001 Annual Report

1998

1999

G A I N I N G M O M E N T U M

2000

2001

2002

2003

2004

2005

2006

2007

2008

2009

2010



P O S I T I O N E D F O R R E S U L T S



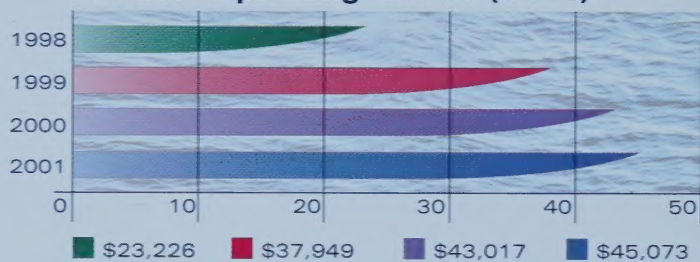
Regional
CABLESYSTEMS

YEAR IN REVIEW

Revenue (000's)



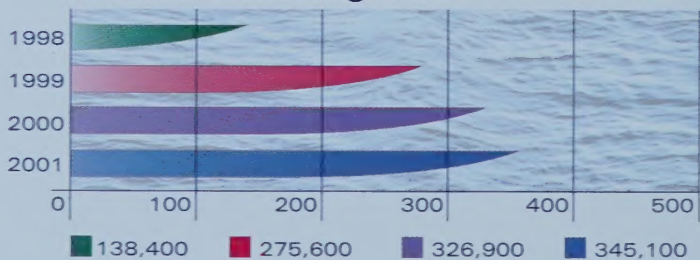
EBITDA - Operating Income (000's)



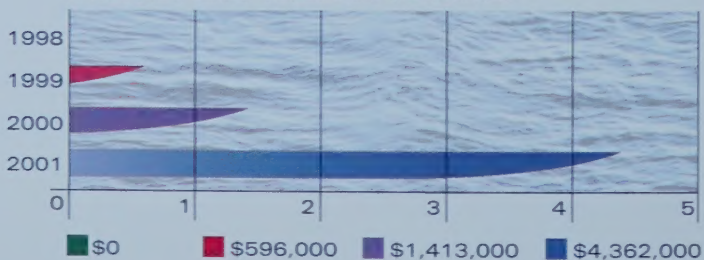
EBD - Cash Flow (000's)



Revenue Generating Units



Internet and Telecom Revenue



year in review

Fiscal 2001 was a year of significant accomplishment for Regional Cablesystems, and a year that launches us into a transformation that will raise the Company to new levels of competitiveness, performance, and results. Significant achievements of the past year include:

- Average "revenue generating units" increased by 18,200 units or approximately 5.6%, from 326,900 in fiscal 2000 to 345,100 in fiscal 2001. The number of Internet subscribers grew more than seven-fold to 7,430. Digital subscriber levels increased 71%, from 4,825 to 8,235.
- Digital cable services were expanded into five more markets, high-speed Internet access was introduced into 14 of our systems, and we added 288 km of fibre optic cable.
- In 2001, your Company was the first in Canada to launch a 100% digital cable platform, which it did in Kirkland Lake, Ontario.
- Total revenue reached \$100.3 million, an increase of \$3.3 million (or 3.5%) over fiscal 2000. Internet revenue increased nearly nine-fold to \$1.4 million, up approximately \$1.3 million from fiscal 2000 levels. And telecom revenue increased 133.5% to \$3 million, up from \$1.3 million in fiscal 2000.
- Operating income or EBITDA reached \$45.1 million, an increase of approximately \$2.1 million or 4.8% over fiscal 2000 EBITDA of \$43 million.
- The Company's EBITDA margin, which was 44.4% in fiscal 2000, increased to 45%, marking it as one of the most efficient cable operators in the country.
- Operating cash flow for fiscal 2001 was solid at \$28.7 million or \$1.79 per share.
- Net income reached approximately \$8.1 million, up \$3.4 million or 72% over fiscal 2000 net income of \$4.7 million.
- In March, 2001, Regional completed a private placement to Canadian institutional investors of \$103 million of 7.452% senior secured debentures having a five-year term. Proceeds were used to retire previously outstanding higher cost debentures and to pay down bank debt.
- The Company made eight strategic acquisitions in its Central and Atlantic divisions, adding approximately 16,300 new cable subscribers at an average cost/subscriber of approximately \$1,660.
- Late in the year we signed an agreement to purchase the cable, Internet and telephone businesses of Amtelecom Group Inc. in southwestern Ontario. In addition to its 10,300 cable subscribers and 2,600 Internet subscribers, this acquisition will bring with it 21,400 telephone customers, launching the Company into a new area of business and providing a base for the creation of a fifth division.
- On August 22, 2001, shareholders approved a corporate reorganization under which shareholders have exchanged their common shares in Regional for common shares in a newly incorporated company named Persona Inc. Through Persona, future growth opportunities in the cable television and telecommunications industry outside of Canada, and in the Caribbean in particular, can be pursued.



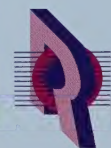
"To serve the customer."

Mission Statement, Regional Cablesystems Inc.

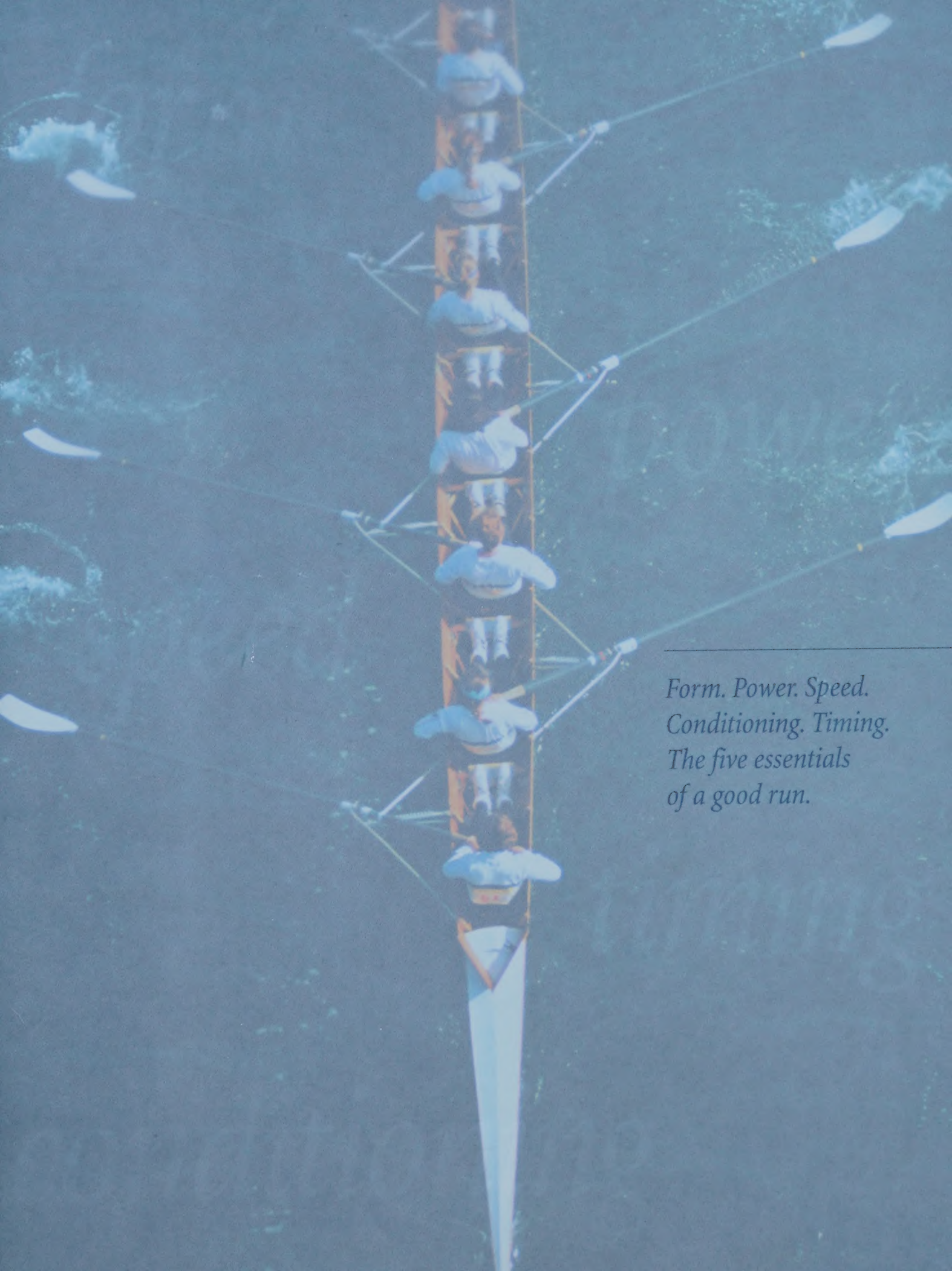
Regional Cablesystems provides cable television, high-speed Internet, and telecommunications services to a diverse residential and commercial customer base in more than 1,200 communities throughout seven provinces: British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, and Newfoundland. It is the fifth largest cable company in Canada, and operates divisional offices in Edmonton, Sudbury, Montreal, and St. John's, which is also home to its corporate headquarters. A widely held public company, Regional's shares are traded on the Toronto Stock Exchange (Symbol: PSA).

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Regional
CABLESYSTEMS



*Form. Power. Speed.
Conditioning. Timing.
The five essentials
of a good run.*

"To serve the customer."

Mission Statement, Regional Cablesystems Inc.

Regional Cablesystems provides cable television, high speed Internet, and telecommunications services to a diverse residential and commercial customer base in more than 1,200 communities throughout seven provinces: British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, and Newfoundland. It is the fifth largest cable company in Canada, and operates divisional offices in Edmonton, Sudbury, Montreal, and St. John's, which is also home to its corporate headquarters. A widely held public company, Regional's shares are traded on the Toronto Stock Exchange (Symbol: PSA).

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form

power

speed

timing

conditioning

REPORT TO SHAREHOLDERS

Fiscal 2001 was a year of significant accomplishment for Regional Cablesystems – and a year that ended with a transformation and restructuring that will raise us to new levels of competitiveness, performance, and results.

Significantly, in an industry experiencing tremendous competition and in a year characterized by tumultuous financial markets, your company achieved a solid net income for the sixth consecutive year: \$8.1 million. In addition, Regional's basic cable subscriber base remained solid at 231,900, while Internet subscribers increased to nearly 7,500 by the close of fiscal 2001. Revenue reached \$100.3 million, an increase of 3.5% over fiscal 2000, and operating cash flow was solid at \$28.7 million. And our 2001 operating margin grew to 45%, up from 44% last year, confirming Regional's status as one of the most efficient cable operators in the country.

These results reflect the positive effects of Regional's primary focus in 2001 – maintaining our profitable core business – as well as the contributions of a new suite of strategic acquisitions, and expansions of our profitable and complementary Internet and telecom activities. We drew on all the strengths we have been building over the last half-decade – optimum form, increased power and speed, improved conditioning and timing – to achieve these successes in a challenging year.

To maintain and enhance our core business in fiscal 2001, we expanded digital cable service into more markets, we introduced

high-speed cable Internet access to many new systems, and we added close to 300 km of fibre optic cable to our network. We will continue to make similar improvements throughout all our divisions in 2002, strengthening and enlarging a foundation for future revenue growth.

Our strategic acquisitions in fiscal 2001 occurred in our Central and Atlantic divisions, clustering well with our existing infrastructure. We also executed an agreement late in the year to acquire the communications businesses of Amtelecom Group Inc. in southwestern Ontario. The transaction is expected to close in the second quarter of fiscal 2002 and brings with it 21,400 telephone customers, thereby launching us into the exciting world of telephony. Amtelecom also provides us with the foundation for a fifth division on which to build our business, as significant numbers of independently owned cable subscribers and telephone access lines exist in the immediate vicinity.

For many years, Regional has been operated, promoted, and perceived as a basic cable-only service provider operating in small rural markets. In many ways, 2001 was a year of transition, as we continued to take advantage of the opportunities provided by technological convergence. Today Regional can justifiably be identified as a leading-edge communications company that can offer residential and business customers the high-end services they want: digital cable (with all its clarity and programming options), high-speed Internet access, and telecom products and services.



In 2000, Regional was the first company in North America to offer third-party Internet service providers access to its networks for competitive high-speed Internet service delivery. This year in Kirkland Lake, Ontario, we became the first company in Canada to launch a 100% digital cable platform. These capabilities, together with the network clustering achieved through our acquisition strategy and an increase in the size of our urban customer base, have helped change both the face and the persona of your company.

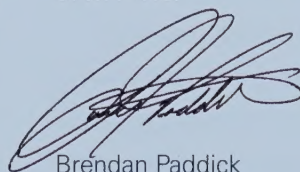
And so, as we reached the final strokes of fiscal 2001, our shareholders resoundingly approved a corporate restructuring plan that will better reflect and promote these changes. In the early months of fiscal 2002, Regional Cablesystems will change again, this time in substance, form, and name.

Under a new banner – Persona Inc. – your company will be structured and positioned to take better advantage of opportunities to deliver cable, high-speed Internet, telecom and telephony services, in Canada and internationally. The new corporate structure will isolate Canadian and international operations from each other, a structure that will provide ongoing benefits and reduce risk to shareholders, while enabling the negotiation of strong financial terms on which to build and expand our future international operations.

We end the year with full awareness of excellent opportunities for new growth, in Canada and particularly in the Caribbean, and in positive anticipation of analyzing and pursuing the best of them. You have our solid commitment to maintain the high-level results Regional has achieved to date, and to work hard to progress the company smoothly and successfully in exciting new arenas.

We extend our thanks to the Board of Directors for its support and input in a year filled with challenges and critical decisions. We look forward to working together through the upcoming period of transformation, and as we go forward in our new form.

Finally, we would like to pay tribute to the 350 Regional employees who make up our team. Dedicated, highly skilled, and reliable, their contributions day in and day out have been behind every Regional winning performance. We know their strengths will help tomorrow's Persona achieve even more.



Brendan Paddick
President & Chief Operating Officer



Gary Kain
Chairman

"Under a new banner - Persona Inc. - your company will be structured and positioned to take better advantage of opportunities to deliver cable, high-speed Internet, telecom & telephony services, in Canada and internationally."

2001: A GOOD RUN

Successful acquisitions that strengthened our system clusterings and increased our size and assets. Tremendous expansion of digital cable and high-speed Internet. Greatly increased revenues from our telecom services. And an operating margin – 45% – that continues to be one of the highest in the industry.

All told, Regional Cablesystems put in a strong performance in fiscal 2001, a year that was characterized by tough competition and an even tougher economic climate.

The numbers tell the story. Our operating margin of 45% was up from 44% last year and is 3% higher than our nearest competitor in the industry. This reflects the efficiencies and cost-effectiveness we have been working hard to achieve in all our divisions.

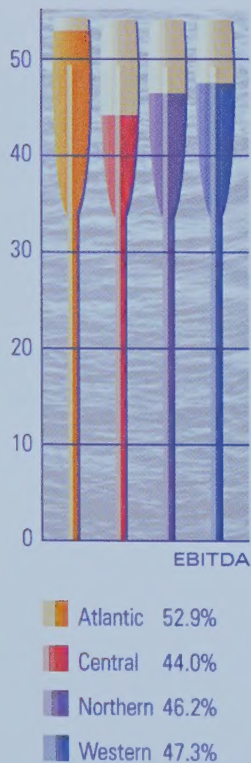
Revenues at the close of the year stood at \$100.3 million, up \$3.4 million over 2000, results that were boosted by a nine-fold increase in Internet sales and telecom revenue that more than doubled. Fiscal 2001's EBITDA of \$45.1 million is an increase of 5% over 2000.

Internet and digital cable subscriptions increased dramatically as well. At the close of the year, Internet subscriber levels stood at approximately 7,500, and digital cable at more than 8,200, increases of 726% and 71% respectively.

Our main effort and energy through the year continued to be focussed on the rapid and smooth integration of our acquisitions. We have improved efficiencies and raised standards so that newly acquired operations run smoothly and profitably, a necessary precursor to turning our attention more fully back to expansion. We have a number of reasons to be proud of the achievements of fiscal 2001. To begin with, they occurred during a year of fierce competition from satellite operators. Though we did lose some core subscribers to satellite service, we believe the consumer trend away from cable has peaked.

Working to our advantage on the financial front, our new services are increasing gross revenue per subscriber and are providing greater cash flow than basic cable service. This translated into growth of average Revenue Generating Units to 345,100 in fiscal 2001, an increase from last year's total of 326,900.

Industry Leading Margins (%)



In the marketplace, we can continue to bank on our established reputation for service and reliability. Regional became competitive – and will continue to be – through increased customer options enabled by digital technology, and through leveraging its existing infrastructure to deliver high-speed Internet and telecom services. There also exists an encouraging constant in the consumer demand for television service worth noting: people want more, not fewer, options. That's a demand and an opportunity to which we will continue to respond.

Fiscal 2001's strong results were also achieved in a year when we incurred the expenses that come with improving our systems and offering new services such as high-speed Internet. In many companies, these expenditures would hurt short-term profitability. Regional has been able to make the new activities profitable, and make the improvements financially comfortable.

In many respects, our results come from the same qualities elite athletes strive and train to achieve – form, power, speed, conditioning, and timing.

FORM

During 2001, Regional continued to refine its form – in the quality of our networks, in areas of business endeavour, and in our geographic locations – while keeping the emphasis on lean management, efficient service delivery, and profitable operations.

In the area of physical assets, our goal is to rebuild the vast majority of our networks over the next two years, to have the capacity to offer existing and potential cable customers

a comparable product with superior levels of service to satellite dishes, and to enable our systems to deliver the new services of the digital and computer age.

In 2001, we invested close to \$34 million in further improving and expanding our cable plant, and we acquired networks that allowed us to consolidate service into fewer headends, thereby spreading the capital cost of upgrading our cable networks over a larger customer base. These improvements provide the foundation for new or enhanced services such as digital channels, e-mail and access to the Internet, interactivity, and telecom services. By the end of 2001, Regional had 1,954 km of fibre optic plant, up from 1,666 km at the end of last year. Our systems' overall quality, in fact, rivals any in the country.

It is clear that digital service, with its superior picture and audio quality and reliability, is vital for the future of the cable television industry. In fiscal 2001, we launched Canada's first all-digital cable service (in Kirkland Lake, Ontario) and added digital service in five new markets in Ontario and Newfoundland. Our digital service customers grew from around 4,800 at the beginning of the year, to more than 8,200 by year-end, with some 10,600 digital boxes deployed. Regional will continue to vigorously implement digital capability into systems across our network, and we expect that digital cable packages – in particular pay-per-view service, video-on-demand, and other interactive applications – will be a significant source of future revenue growth.

Regional's form of Internet delivery is distinctive, and is yielding excellent results. In 2000, we pioneered operating our Internet

"In many ways, 2001 was a year of transition, as we continued to take advantage of the opportunities provided by technological convergence."

business on a third-party, competitive-access model. The results were clear, and in fiscal 2001 we greatly increased our activity in this field. We launched high-speed Internet service in 14 systems across Canada since December. In Newfoundland the service was launched in its first system in July and launches in that region will continue through the fall and winter.

At year-end, Internet subscribers totaled about 7,500, a significant growth from 900 at year-end 2000. Correspondingly, revenue for this aspect of our business increased from \$142,000 to \$1.4 million. It is Regional's intention to roll out Internet services to about two-thirds of our subscriber base over the next year. We expect Internet to have a \$3.0 million-plus positive impact on revenue in 2002.

Operating our Internet service through agreements with independent ISPs essentially removes all administrative costs from our shop, leaving it in the Internet service provider's (ISP) expert hands. It allows us to leverage our physical infrastructure, but does not tax our management or human resources. Even better, it allows us to have multiple and competing ISPs on one network. Our bottom line benefits from all their traffic, not just the traffic from the most successful operator.

And there are further benefits to be realized by bundling these services with our existing cable tv services. For example, at the beginning of fiscal 2001, a wholesale and marketing package was introduced to ISPs in our Northern division. The "RevNet" service bundles local loop, cable modem, and co-op

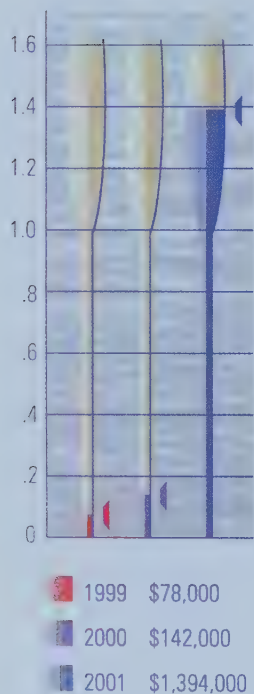


marketing efforts into a single package for ISPs. As a result, our subscriber levels in Regional's two largest markets (Sudbury and Timmins) more than doubled to 2,200-plus in the first two months, and increased our open access subscribers 100%. As this activity indicates, in 2001 we moved even further toward defining our "cable business" as that which delivers cable television and Internet services.

Regional further optimized its form in fiscal 2001 by acquiring cable companies in Ontario, Quebec, and Newfoundland that enhanced existing system clusters. In the fall of 2000, we purchased Kawartha Lakes Cablevision in Ontario, adding 1,700 subscribers to our Peterborough-region base. In February 2001, we acquired Riverview Cable, adding 400 customers in central Newfoundland. Riverview's high-quality system is two-way digital ready, fitting well our digital and Internet rollout agenda. Together, these acquisitions cost \$2.5 million (\$1,175 per subscriber).

Also in 2001, Redden's Cable TV in Ontario and Pontiac Cable Company Inc. in Quebec were added, giving us 1,600 more customers

Internet Revenue Growth (in millions)



in the Peterborough area (in Campbellford), and 600 customers in the Outaouais region of Quebec (Campbell's Bay), respectively. These companies were purchased for \$2.59 million (\$1,231/subscriber).

Additional Ontario acquisitions in 2001 included: Cottager's Cable Limited and Village Cablesystems Limited (again, both in the Peterborough region), which added about 2,000 subscribers and cost \$2.2 million (\$1,100 per subscriber). In Quebec, further acquisitions included Duclos Cablevision Ltée on the Magdalene Islands, a company with 3,700 cable subscribers that also provides Internet service to about 750 customers. The purchase price was \$5.8 million.

This series of acquisitions continued to add mass and operating efficiencies to our smallest division, Central – which provides services to Western Quebec and Eastern Ontario. Overall, it pushed Central's subscriber base to 34,750, a 22.5% increase since September 2000.

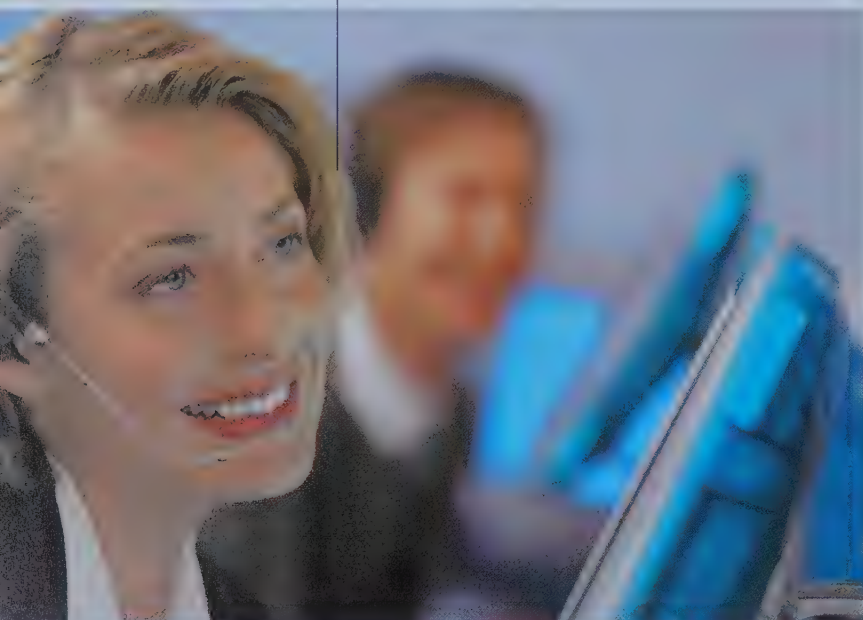
Then, in July, Community Cable Limited and Andromeda Cablevision, both on the Avalon peninsula of Newfoundland, added 6,500 customers at a cost of \$14.1 million, and consolidated that province's cable business into the hands of only two companies, Regional and Rogers Cable Limited. The purchase-price obligations of the fiscal 2001 acquisitions were met through a combination of the issuance of Regional's common shares, its fully underwritten \$175 million revolving committed term facility, and operating cashflow.

All of our purchases were guided by an unwavering strategy: to seek, evaluate, and acquire only those independently owned cable systems that cluster well geographically with our existing assets. In addition, we examined whether or not potential acquisitions could meet our financial performance hurdles by implementing Regional's operating efficiencies and applying the kind of refinancing our size would enable. The final critical element of our acquisition strategy was, and will continue to be, the discipline of exercising non-action. Some of Regional's best deals have been the ones we did not do at all; we walk away from potential acquisitions that simply do not meet all of our criteria.

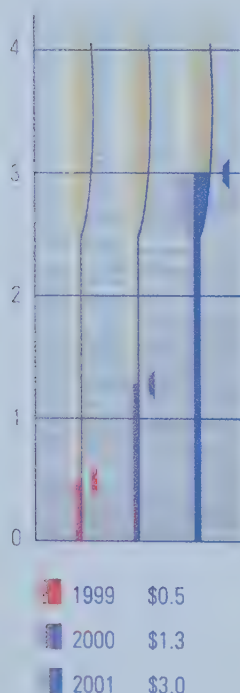
Similar to many cable companies, in 2001 we continued to use our existing infrastructure to expand our telecom business: in long-haul traffic (moving data between communities

"Some of Regional's best deals have been the ones we did not do at all."





Telecom Revenue Growth *(in millions)*



for commercial users), in providing Local Area Network services to business and government, and in custom networking. Although this capability is currently available only in Northern Ontario, we have plans to expand it throughout other divisions in 2002.

In July, for example, we signed a contract worth approximately \$700,000 with AT&T Canada Inc., allowing it to lease surplus dark fibre capacity to provide services to its Northern Ontario customers. And the consolidation of the acquisitions on Newfoundland's Avalon peninsula will allow us to provide similar services there in fiscal 2002. Overall, this business is growing rapidly; revenue of \$1.3 million in 2000 increased to \$3.0 million this year, and could approach \$10 million in 2002.

By increasing our revenues and reducing costs in both cable television and telecom business units, these telecom activities

will continue to provide future growth opportunities and, we feel, prove that entering this area of activity far surpasses the possible benefit of divestiture. In fact, the opportunities of telecom are enriching and transforming our acquisition strategy.

Just prior to year-end, we announced an Ontario acquisition that will allow us to again realign our form: the communications businesses of Amtelecom Group Inc. (AGI). Through AGI Cablevision, we gain 10,300 cable subscribers in southwestern Ontario; we also gain 2,600 Internet subscribers. The acquisition of Amtelecom Inc., however, brings us our first telephone service through 21,400 network access lines in the Simcoe region, as well as employees skilled in building and maintaining both cable and telephone plant. The two businesses will continue to operate from Aylmer, Ontario, and are expected to initially add more than \$12.5 million to Regional's annual EBITDA. The transaction should close in the second quarter of fiscal 2002.

Telephone service is an exciting new addition to Regional's repertoire of services, one that suits the synergies of Regional's current capabilities and is compatible with our unique convergence strategy. In addition, the technical expertise of the Amtelecom telephony employees will allow us to more thoroughly exploit existing and future telecom business opportunities at all divisions.



POWER

At Regional, the power to embark on improvements to our systems and to continue our strategy of acquisitions is rooted in the conservative nature of our balance sheet.

At a time when most of our industry peers are very highly levered, Regional Cablesystems remains conservatively financed. This gives us the power and the flexibility to grow, and to capitalize on the opportunities in the market for acquiring independent cable and telecommunications companies that occur during economic downturns.

Refinancing activities in 2001, in which we obtained extremely favourable terms despite the volatile market, further enhanced Regional's financial position. The new terms, we believe, also reflect the investment community's confidence in our strategy, in the stability of our core business, and in our ability to perform.

Specifically, we refinanced our long-term debt facilities in June by issuing senior secured debentures. The proceeds from this \$103 million issue were used to retire our existing debentures and pay down bank debt. We then negotiated and concluded a favourable amendment to our \$175 million committed secured banking facility with a syndicate of five banks.

Under the terms of this refinancing, Regional can avail itself of up to 4.5 times indebtedness to EBITDA for acquisition purposes, which improves upon the previous leverage ratio of less than 3.5 times. In addition, our allowable annual capital spending doubled to \$200 per subscriber per year, enabling Regional to pursue the plan of upgrading our networks to be digital-cable, high-speed Internet, and telecom ready. This higher leverage ratio is still among the most conservative in North America's cable television industry.

"At a time when most of our industry peers are very highly levered, Regional Cablesystems remains conservatively financed."

At the close of the year, Regional held an unused committed bank facility of \$88 million. This is a significant war chest to finance our activities of 2002 and to continue our strategy of expansion.

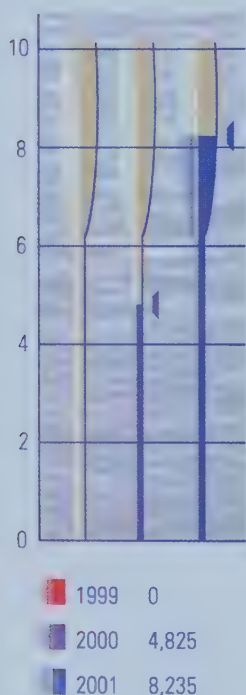
SPEED

At Regional, high-speed delivery begins with our commitment to customer service. In our core cable business, for example, we continue to respond to requests for installation, service, information – as well as new services, packages, and options – as quickly as possible. This commitment underpins customer service in all our divisions and in all our areas of business.

We also continue to cultivate speed at the corporate and divisional levels. Regional's lean corporate hierarchy (there are only three executive officers at the St. John's head office) directs much of the operating decision-making to the divisions. Fully accountable, our divisional decision-makers are nevertheless empowered to respond quickly to circumstances and opportunities in their distinctive markets.

Today, ever-increasing speed is what customers want from their Internet service provider. As of August 31, 2001, Regional's cable plant provided high-speed cable access to 7,500 Internet subscribers. Further expansion of this service into 22 markets is planned for 2002. By the end of fiscal 2002, Regional's Internet service will pass more than 235,000 households. It will enable us to satisfy and benefit from this growing consumer demand.

Digital Subscriber Growth



CONDITIONING

Under Regional's corporate culture, we are conditioned to respect that the advantages of speed must be tempered with prudence and discipline. We are critically aware that, when it comes to new technology, our job is not to predict the future but to enable it. We wait to adopt technologies until they are proven to work, are on-stream as the industry standard, and are available at costs that enable economies of scale to be realized. That said, we continued to support employee training, keeping our team advised of leading-edge products and services, preparing them to deploy new technology.

At Regional, conditioning includes rigorously maintaining the high standard of our systems, and focusing on operating efficiencies. We will carry that conditioning

forward in all future acquisitions. And we are conditioned to react quickly to new business opportunities, while retaining the ability to step back from acquisitions that do not meet our strict criteria. We intend to exercise this discipline as we investigate the new opportunities of 2002.

TIMING

Because Regional operates in the fast-changing world of developing technology, getting the timing right in new endeavours has been critical to our success. We feel that our entrance into the digital marketplace was timed perfectly. Costs of hardware have gone down and the technology has adopted manageable and predictable standards, minimizing risk and making the expense of introducing these services scalable and justifiable in many of our communities. The same is true of our Internet service deployment. We waited until the technology was proven, and until we could develop a delivery method that would be profitable for us. At Regional, we know our expertise lies in service delivery, not software development or designing the hardware of the future. As communications technology and the opportunities of convergence continue to evolve, our timing will continue to be informed by the prices and standards at work in the marketplace.

Has the time to acquire cable companies in Canada come and gone? We don't think so, as our acquisition of Amtelecom indicates. Moving into the Aylmer and Simcoe regions of southern Ontario in fact enhances Regional's acquisition growth prospects. There are estimated to be about 40,000 independently owned cable television subscribers in close proximity to the Aylmer operations, and 57,000 independently owned telephone access lines in the same region.

And we believe we have timed our jump to a new area of operations – the Caribbean – to coincide perfectly with the evolution of that marketplace.





A GREAT FINISH

The closing weeks of fiscal 2001 were characterized by bold, strong strokes that will raise your company to a whole new level of performance in 2002, and beyond.

Shortly after the announcement of our acquisition of Amtelecom, a special shareholders meeting (August 22) approved a reorganization of our corporate structure that paves the way for planned expansion into the Caribbean marketplace. We believe excellent opportunities for expansion exist outside of Regional's current regulated businesses, particularly in – but not limited to – the Caribbean region, which are complementary to our existing businesses. The corporate reorganization does not, however, indicate any intention of pursuing cable television or telecommunications opportunities based in the continental United States.

This new corporate structure creates a holding company, Persona Inc., to which subsidiaries (of which the current Regional Cablesystems will be the first) will report. This structure allows greater flexibility to

explore new opportunities in Canada, in the Caribbean, and elsewhere. Foreign ownership in the publicly traded entity can be increased from 20% to 33%, which will potentially increase the supply and decrease the cost of capital and permit more flexibility in using common shares in new acquisitions. Each subsidiary business will be stand-alone financed, which will potentially isolate each business unit from the inherent obligations and risks of the others.

As with any new venture, expansion into the Caribbean carries some risk. However, we believe the move offers many advantages, and we are currently aware of significant specific opportunities to acquire cable television and telecommunications properties throughout the region.

The "Caribbean" market, which extends from the commonwealth of the Bahamas through to Trinidad, is large (36 million people, 5 million more than the Canadian population) and far more concentrated than in Canada. It is also fragmented, and comprised primarily of a combination of local and expatriate operators that are generally independently owned, poorly financed, and without access to capital markets from which the funds required to build communications networks that take advantage of true convergence could be raised.

The current state of evolution of existing Caribbean businesses ranges from those markets with no cable systems at all, through those with systems needing some upgrading to bring them up to today's standards, to state-of-the-art systems that rival any in North America. The latter are well equipped to take advantage of the complete range of telecommunications opportunities: digital cable, high-speed Internet, telecom, cellular, wireless. The former could be transformed and made ready by the application of the same experience and resources we have harnessed for our systems in Canada.

Other factors favouring expansion into this market include a government and regulatory environment that is, in most Caribbean countries, becoming increasingly pro-competitive and supportive of foreign investment in communications markets. In English-speaking countries, these markets have traditionally been dominated by the UK-based Cable and Wireless plc (C&W). However, many governments have recently

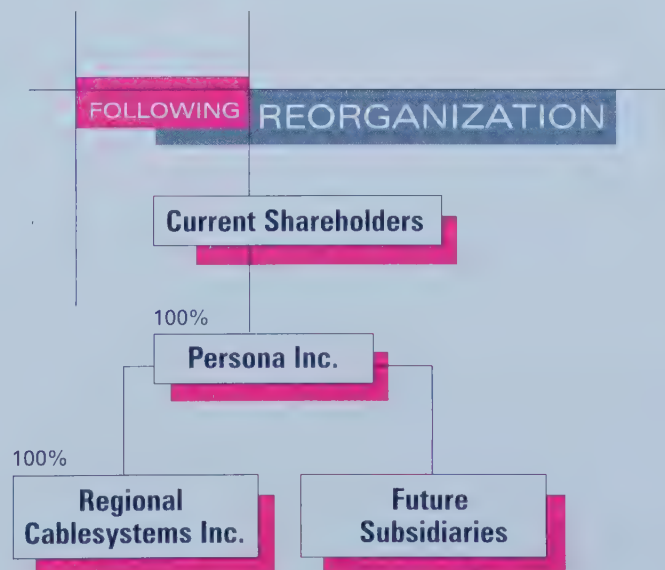
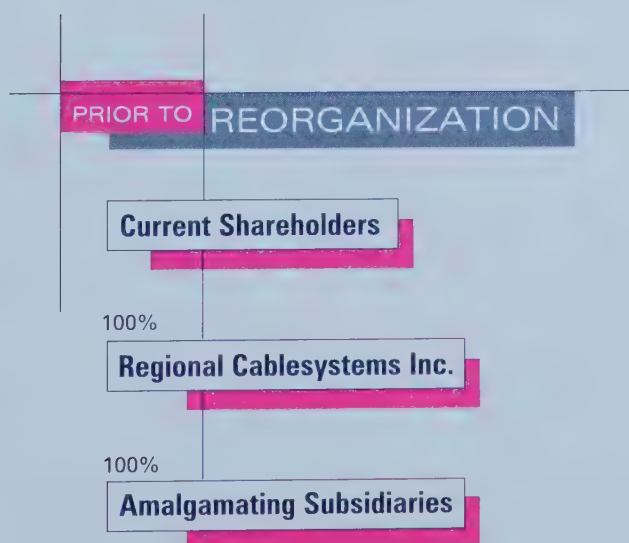
entered into agreements to terminate the monopoly rights of C&W and its affiliates.

In addition, the copyright legislation in many of the countries resemble that under which we operate in Canada, and tax laws are generally more favourable than in Canada. Several of the countries were former British colonies; their legal systems, like Canada's, are based on British Common Law.

We believe we have the strengths, the experience, and the human and financial resources to take full advantage of these opportunities. Our significant and largely successful Canadian experience over the last 15 years – identifying, negotiating, acquiring, upgrading and efficiently running hundreds of cable television properties – has provided an excellent training ground.

We look forward to successfully applying what we have learned to full shareholder advantage through our new and continually evolving Persona.

CORPORATE STRUCTURE



OVERVIEW

Fiscal 2001 was not merely another successful year marked by record revenue and operating income ("EBITDA") levels; it was also the year in which Regional truly spread its wings to soar beyond its traditional Canadian cable business. While the careful management of the Company's core cable operations in a fiercely competitive marketplace is management's primary function, we have also focused on the growth of Regional's high-speed Internet and telecom businesses. These businesses grew substantially during the year and accounted for 8.3% of the Company's fiscal 2001 EBITDA (Fiscal 2000, 2.3%). The pending acquisition, subject to regulatory approval and standard commercial conditions, of the telephony, cable and Internet businesses of Amtelecom Group Inc. in southwestern Ontario (the "Amtelecom Acquisition") will further grow the Company's cable and Internet businesses and will see Regional enter the telephone business. Regional received lender approval for this acquisition on September 28, 2001. Management has also begun looking beyond Canada for opportunities to grow the business.

Management's primary goal continues to be the enhancement of fundamental shareholder value. To that end, management's focus in fiscal 2001 was in four key areas.

The first area was the protection of the Company's subscriber base. Like other Canadian cable television operators, Regional faces intense competition from suppliers of direct broadcast satellite services (i.e., from "DTH"). Regional is meeting the competition head on through a comprehensive cable system upgrade strategy that has allowed it to rapidly enhance product offerings and to aggressively roll out digital cable services and Internet services. The Company also continues to practise strict cost control and this has allowed it to continually enhance product offerings with only modest rate increases to its subscribers. The provision of high-quality customer service remains a priority as well.

The second area of focus was the continuation of the Company's cable system acquisition program. The non-metropolitan cable system market in Canada is widely held and, in many cases, Regional is the only operator actively acquiring systems in this market. This limited competition has enabled the Company to purchase cable systems at favorable prices and to select only those systems that best fit its existing clusters. Acquisition activity in fiscal 2001 was intense. In addition to the closing of eight acquisitions comprising 16,300 basic cable subscribers for a total purchase price of approximately \$27.1 million, the Company has entered into the Amtelecom Acquisition which has a \$67 million price tag and is expected to initially generate \$12.6 million in annualized EBITDA. The Amtelecom Acquisition marks a broadening of the scope of the Company's acquisition strategy to encompass telephony. Management believes there are many exciting and lucrative acquisition opportunities in the independent telco market in Canada, including potential acquisitions that are in close proximity to the Amtelecom Acquisition.

The third area of focus in fiscal 2001 was the growth of the Company's high margin Internet and telecom businesses. To facilitate this growth, the Company has undertaken an extensive capital program designed to expand its fibre networks and to upgrade its cable systems to support these services. This capital program, which commenced in fiscal 1999, has seen capital expenditures rise from \$95 per subscriber in fiscal 1999 to \$122 per subscriber in fiscal 2000 and then to \$158 per subscriber in fiscal 2001. Regional added 288 kilometres of new fibre in fiscal 2001 and now has close to 2,000 kilometres of fibre deployed. Currently, 36.2% of Regional's subscriber base, or about one third of homes passed in its systems, have access to Internet services. The results have been dramatic. Combined Internet and telecom revenue for fiscal 2001 reached approximately \$4.4 million, more than triple corresponding fiscal 2000 combined revenue of \$1.4 million.

The fourth area of focus in fiscal 2001 was the reorganization of the Company. Under such reorganization, a new company named Persona Inc. ("Persona") was incorporated. Effective September 1, 2001, shareholders exchanged their common shares in Regional for the same number of common shares in Persona and Regional became a wholly owned subsidiary of Persona. Persona shares now trade on the Toronto Stock Exchange under the symbol "PSA". The purpose of the reorganization was to create a corporate structure that will:

- (i) accommodate future growth in the cable television and telecommunications industry, both inside and outside of Canada, on a stand alone financed basis, including in the Caribbean region;
- (ii) allow foreign ownership of Persona common shares to increase to a maximum of 33⅓% from the current 20% foreign ownership limit. An increase in foreign ownership will potentially decrease Persona's and, through Persona, Regional's cost of capital and permit the flexibility to utilize Persona common shares in any acquisition of new cable television or telecommunications entities, such as those presently available in the Caribbean, and
- (iii) better position Persona and Regional to pursue new business opportunities in unregulated business segments within Canada or abroad.

Management believes that there are good opportunities outside of Regional's existing regulated businesses, particularly in, but not limited to, the Caribbean region that are complementary to the existing businesses that are now carried on by Regional. Management has no intention of pursuing cable television and telecommunications opportunities based in the continental United States. The creation of the new corporate structure will provide greater flexibility to explore such opportunities and to better organize and potentially isolate some business units, and the inherent obligations and the related risks that each may entail, in individual subsidiary corporations.

SUBSCRIBERS

In fiscal 2001, Regional began reporting "Revenue Generating Units" ("RGUs") in an effort to provide shareholders and other financial statement users with a clearer picture of the Company's financial performance. The cable television market has become fiercely competitive and Regional, like all other operators in the country, has experienced some erosion of its basic subscriber base due to DTH. Regional is fiercely competitive too, and is thriving in today's marketplace. Regional's RGU performance proves this point. Although the number of basic cable television customers declined from 236,100 at the end of fiscal 2000 to 231,900 at the end of fiscal 2001, the number of RGUs increased from 326,900 to 345,100 over these same periods; an increase of 18,200 RGUs or 5.6%.

RGUs are calculated by dividing the Company's average monthly gross revenue during the year by its weighted average basic monthly cable rate. Each basic cable subscriber therein would have an average value of one RGU. This calculation then converts all other revenue streams to a common basis of measurement. The Company's RGU performance demonstrates that revenue growth through the expansion of tier, digital cable, Internet and telecom services has far outpaced any revenue loss through erosion of the basic cable subscriber base.

Equally as important is the fact that the replacement of a dollar of basic cable revenue with a dollar of Internet and telecom revenue has a positive impact on EBITDA since these latter services carry significantly higher EBITDA margins than does basic cable service. Regional's EBITDA grew by \$2 million or 4.8% in fiscal 2001. Its overall EBITDA margin also increased from 44.4% in fiscal 2000 to 45% in fiscal 2001.

During fiscal 2001, the Company acquired eight cable television companies serving approximately 16,300 basic cable subscribers at an average price of approximately \$1,660 per subscriber. Of these new subscribers, 6,835 are located in Newfoundland and are serviced by the Company's Atlantic division. Regional's Central division operates the cable systems serving the remaining 9,465 acquired subscribers, of which 4,285 are located in Quebec and 5,180 are located

in southeastern Ontario. The Amtelecom Acquisition, which includes a telephone business with approximately 21,400 access lines and an Internet business with about 2,600 subscribers, would also add 10,300 basic cable subscribers to Regional's subscriber base. These businesses, which are located in southwestern Ontario (Aylmer, Simcoe, Bruce Peninsula, Manitoulin Island, Coldwater, Cambray), would be operated as the Company's fifth division. Strategically, the Amtelecom Acquisition will provide Regional with a base for future acquisitions in the area. Management has identified as potential acquisition targets in the surrounding area a dozen independent telephone companies collectively operating 57,550 access lines and a dozen cable operators collectively serving 55,750 basic cable television subscribers. Other growth opportunities would include the development of wireless services in Amtelecom's existing service areas, as well as the development of competitive local exchange services in nearby areas and in Sudbury. The latter could be accomplished by using existing excess switch capacity and a fibre linkage to Regional's Sudbury system.

The number of tier subscriptions reached 139,500 at the end of fiscal 2001; up by 13,000 subscriptions or 10.3% over the fiscal 2000 year end count of 126,500 subscriptions. In last year's annual report, management noted that the number of tier subscriptions had increased by 15,000 from fiscal 1999 to fiscal 2000. Although the annual growth in the number of subscriptions on an absolute basis has fallen from 15,000 to 13,000, the internal rate of growth has not fallen. In fact, it has increased. There are two reasons for this apparent anomaly. First, tier services relate to analogue cable subscribers and the analogue subscriber base declined from 231,275 basic subscribers at the end of fiscal 2000 to 223,665 basic subscribers at the end of fiscal 2001, due partially to erosion and partially to the switch of analogue subscribers to Regional's growing digital cable service. Second, Regional acquired approximately 16,300 basic cable subscribers in fiscal 2001, which is about half of the fiscal 2000 acquisition tally of 32,080 basic cable subscribers. Most of the fiscal 2001 growth in tier subscriptions was therefore attributable to the combination of increased penetration rates on existing

tiers and the introduction of tiered service packages to more communities i.e., through internal growth rather than external acquisition — driven growth. Tier subscriptions, as a percentage of the analogue subscriber base, have increased from 54.7% in fiscal 2000 to 62.4% in fiscal 2001.

Digital cable television services were rolled out in five additional systems in fiscal 2001. Digital access, which stood at 23.8% of basic cable subscribers at the end of fiscal 2000, increased to 30.2% of basic cable subscribers by the end of fiscal 2001. This expansion in the availability of digital cable service, along with the increase in the digital penetration rate from 6.3% to 8.6% in those systems where digital service is available, has pushed the number of digital cable subscribers from 4,825 at the end of fiscal 2000 to 8,235 at the end of the current fiscal year. The Company's ongoing comprehensive cable system upgrade program is targeted to further increase the availability of digital cable service to approximately 52% of the Company's existing basic cable subscribers by the end of fiscal 2002. Management believes that the continued expansion of digital cable services is essential in the battle against DBS and other competing services.

High-speed Internet access was introduced in 14 additional systems during the year. Currently, 36.2% of Regional's basic cable subscribers, or about one third of homes passed in its systems, have access to Internet services. This is up from 23.8% of basic cable subscribers or 20.3% of homes passed at the end of the prior fiscal year. The number of Internet subscribers grew more than seven-fold in the year, rising from 900 high-speed Internet subscribers at the end of fiscal 2000 to 7,430 Internet subscribers (of which 560 are dial-up and 6,870 are high-speed) at the end of fiscal 2001. With the exception of the Company's 560 dial-up Internet subscribers, which were included with a cable system in Quebec that was acquired during the year, all of the growth in Internet subscriber levels has been organic. Management is optimistic that Regional will enjoy further significant growth in high-speed Internet subscriber levels in fiscal 2002 as it rolls out this service under an aggressive capital program that will see about two-thirds of the Company's existing cable subscribers, or nearly 60% of homes passed, have access to high-speed Internet services by the end of fiscal 2002.

REVENUE

Total revenue reached \$100.3 million in fiscal 2001; up \$3.4 million or 3.5% over fiscal 2000 revenue of \$96.9 million. Internet and telecom revenue accounted for \$3 million of this increase with cable operations providing the remaining growth.

The Company's core cable business generated total revenue of approximately \$95.4 million, up \$400,000 from fiscal 2000 cable revenue of \$95 million. Within cable operations, basic subscription revenue declined by \$1.3 million or 1.9% to \$67.8 million, tier revenue grew by \$700,000 or 5.1% to \$14.5 million, premium pay revenue remained steady at \$4.5 million, pay-per-view revenue doubled to \$400,000, and commercial and ancillary cable revenues increased by \$800,000 or 10.8% to \$8.2 million.

The decline in basic subscription revenue was due primarily to erosion of the cable subscriber base noted earlier. Consistent with previous fiscal years, rate increases in fiscal 2001 were minimal and were tied to expanded channel offerings to enhance the value of the service packages offered. Management continues to believe that adherence to this proven core strategy is essential to the protection of the Company's subscriber base in today's competitive marketplace. The amount of cable revenue derived from each cable subscriber increased slightly from \$33.85 per month in fiscal 2000 to \$34.24 per month in fiscal 2001, which is consistent with the Company's strategy for rate increases. The modest increase that did occur was largely attributable to growth of higher priced digital service packages. Management is also optimistic that the aggressive expansion of the availability of digital cable television services in the Company's systems will continue to have a positive impact on subscriber levels and cable revenue. The doubling of pay-per-view revenue and the 70.7% growth in the number of digital subscribers in fiscal 2001 support this optimism. Compelling support can also be found in the Company's cable penetration rates for its digital versus its "analogue only" systems. Specifically, the cable penetration rate in Regional's "analogue only" systems fell from 60.3% in fiscal 2000 to 53.8% in fiscal

2001. The penetration rate in its digital systems is much higher at approximately 73.5%, and remained steady over fiscal 2000 and fiscal 2001.

The growth in commercial and ancillary cable revenue was spread among a variety of revenue streams. The growth in tier revenue was attributable almost entirely to increased tier subscriptions, as discussed previously, since rate increases on tiers were minimal in fiscal 2001. Premium pay revenue levels are also very encouraging. Despite a decline in the number of analogue cable subscribers due to erosion of the subscriber base and the migration of analogue subscribers to digital cable service, premium pay revenue held steady at \$4.5 million. Given minimal rate increases on premium pay services in fiscal 2001, premium pay revenue levels were therefore maintained through increased penetration rates for these services.

The Company's Internet and telecom businesses were the growth engines for revenue levels in fiscal 2001. In the Company's fiscal 2000 annual report, management indicated that it had targeted telecom revenue to grow to \$2.3 million in fiscal 2001. Actual results far exceeded expectations as telecom revenue reached nearly \$3 million in fiscal 2001, up nearly \$1.7 million or 133.5% over fiscal 2000 telecom revenue of about \$1.3 million. Further significant growth is expected in fiscal 2002. Likewise, Internet revenue growth greatly exceeded expectations. Last year's annual report targeted fiscal 2001 Internet revenue at \$1 million. Internet revenue actually reached \$1.4 million in fiscal 2001, up approximately \$1.3 million or nearly nine-fold over last year. This growth was attributable primarily to increased availability of Internet services in the Company's systems. Based on actual Internet experience in fiscal 2001 and on the increased availability of Internet services that will occur in fiscal 2002, as noted earlier, management is targeting Internet revenue to more than double to approximately \$2.9 million in fiscal 2002. Microwave revenue for the year was \$467,000, virtually identical to last year. The Company continues to be interested in selling its microwave systems as these assets are viewed as both non-core and limited in growth potential.

The successful closure of the Amtelecom Acquisition would have a material impact on fiscal 2002 revenue levels. Initially, annualized revenue from that acquisition would be expected to approach \$24.2 million, comprised of telephone revenue of \$19.3 million, cable revenue of \$3.9 million and Internet revenue of \$1 million. Management believes that the potential for further revenue growth is enormous given the potential acquisition targets nearby and the possibilities of new revenue streams from wireless services and expanded local exchange services. Fiscal 2002 revenue is also expected to be impacted positively by the deregulation in October, 2001, of basic cable rates in the Company's Class 1 systems of Sudbury and Timmins. These systems currently serve a total of approximately 55,150 basic cable subscribers.

DIRECT COSTS

Signal and copyright costs on cable services represent the Company's largest expense and are therefore, very carefully managed. Prior to fiscal 1999, these costs fluctuated between 17% and 18% of cable revenue. This ratio increased to 21.8% in fiscal 1999, for two reasons:

- (i) The continued aggressive enhancement of channel lineups and product offerings with only modest rate increases. Management continues to believe that the value to Regional's cable subscribers created by this core operating strategy is critically important to the maintenance and growth of the Company's subscriber base in an increasingly competitive marketplace.
- (ii) The acquisition in November, 1998, of the cable systems now operated by the Company's Northern division. At that time, about 78% of the acquired subscribers were located in Class 1 and 2 systems. Under CRTC regulations, Class 1 and 2 systems are subject to specific "must carry" rules and distribution and linkage requirements with respect to their channel lineups. In addition, the basic monthly fees for Class 1 systems are regulated. The mix of services in these acquired systems also differed significantly from those of Regional's remaining systems. In particular,

tiered services accounted for 27% of cable revenue in the acquired systems versus 4% in the Company's other systems at that time. Tier packages carry higher signal-to-revenue ratios than basic service packages.

In fiscal 2000, signal and copyright costs increased to 24% of cable revenue due to continued channel enhancements with only modest rate increases, to the inclusion of the operating results of the Company's Northern division for the entire fiscal year (versus inclusion of ten months in fiscal 1999, from November 1, 1998, to August 31, 1999), and to further expansion of tiered services. In addition, fiscal 2000 results included newly launched digital cable services which have higher signal-to-revenue ratios than basic analogue services. In fiscal 2001, signal and copyright costs declined slightly to 23.8% of cable revenue despite further growth in tiered and digital services and despite the absence of significant increases in prices charged to cable subscribers. This was accomplished through aggressive signal contract negotiations during the year, which resulted in signal waivers and rebates as well as reduced rates on various signals. In particular, Regional re-negotiated its signal arrangements with one of its largest signal suppliers that saw rates reduced from 20 cents per channel subscriber per month to 9 cents for approximately 690,000 channel subscribers. Without these negotiated savings, which collectively totaled approximately \$3.5 million, signal and copyright costs would have been about 27.5% of cable revenue in fiscal 2001. The Company's billing rates and channel packages have been structured to yield an estimated signal-to-cable revenue ratio of about 27% in fiscal 2002. These higher ratios are due to continued expansion of channel lineups in the absence of significant rate increases and to the growth of tier and digital cable television subscriptions. The Amtelecom Acquisition would bring an additional 10,300 cable subscribers with an expected signal-to-cable revenue ratio of approximately 20% into Regional's subscriber base. This would be expected to have a negligible effect on Regional's overall signal-to-cable revenue ratio in fiscal 2002.

Telecom direct costs totaled \$344,000 in fiscal 2001, yielding a gross margin of 88.4% on telecom operations in the year. This is higher than the targeted 82.5% margin noted by management in

the Company's fiscal 2000 annual report. It is also significantly higher than the 79.5% margin achieved in fiscal 2000. The large increase in this margin reflects the fact that in fiscal 2000 telecom operations were still in the relatively early stages of development and costs were higher relative to the initial revenue streams. The operating margin has increased rapidly as additional telecom contracts were layered on with only modest increases in direct costs. The Company's fiscal 2002 budget targets a margin of 87.2% on telecom operations.

The direct costs of the Company's Internet business totaled \$282,000 in fiscal 2001, yielding a gross margin of 79.8% for the year. Regional's Internet strategy is to provide a reliable broadband pipeline to third-party Internet service providers who provide everything else. In return, Regional receives a portion of the Internet revenue that is generated. Direct costs are therefore very low relative to revenue streams. The Company's fiscal 2002 budget targets the gross margin on Internet services to rise to 91.7% as revenue rises rapidly with only modest increases in direct costs.

The impact of the Amtelecom Acquisition on Internet direct costs and gross margins cannot be reliably estimated. Currently, the entity to be acquired acts as the Internet service provider whereas Regional merely provides access to a broadband pipeline in its existing Internet business. The Internet direct costs and margins of each entity are therefore vastly different. Initially, the acquired Internet business would be expected to generate annualized direct costs of \$775,000 on \$1 million of annualized revenue. Regional intends to immediately evaluate the acquired Internet business to determine if such business can be operated in a manner identical to its existing Internet business and to implement any necessary changes to achieve this goal. The likely results and timing of these activities and their impact on Internet direct costs and margins are largely unknown at this time.

The direct costs of the Company's microwave business in northern Ontario, which totaled \$289,000 in fiscal 2000, increased slightly to \$291,000 in fiscal 2001. The gross margins on this business were 38.2% in fiscal 2000 and 37.7% in fiscal 2001. Microwave direct costs consist primarily of salary and repair costs. As repair costs can fluctuate

widely from year to year, microwave operations are susceptible to wide margin swings given the small revenue levels of this business. Accordingly, fiscal 2002 microwave margins may not be similar to those of fiscal 2000 and 2001.

The Amtelecom Acquisition would add a new category of direct costs to Regional's operating results; namely, telephone direct costs. Initially, these costs would be expected to be approximately \$8.2 million (on an annualized basis) on annualized telephony revenue of \$19.3 million. As with past acquisitions, Regional would act quickly to trim these costs to the maximum extent possible through implementation of strict cost controls and realization of synergistic benefits.

OPERATING EXPENSES

Operating expenses are comprised of technical, administrative, marketing and broadcast services expenditures. Broadcast services relate primarily to the Company's Northern division and include the net results of its advertising channel operations, community programming costs and contributions to a programming fund. The latter two expenditure areas are required under CRTC regulations for the Company's Class 1 and 2 cable systems. Approximately 80% of the Northern division's subscribers are located in Class 1 and 2 systems, therefore, broadcast services operations in that division are extensive.

Strict cost control has been a core operating strategy for many years. The Company has not lost sight of this successful strategy despite its focus in recent years on growing its digital cable, Internet and telecom services and on its aggressive cable system acquisition program. Operating expenses, which averaged 32.9% of gross revenue in fiscal 1997 through 1999, fell to 31.4% of revenue in fiscal 2000 and were held at 31.5% of revenue in fiscal 2001. These results reflect the fact that Regional has very strong internal control systems and very carefully monitors expenditure levels on an ongoing basis. For example, the Company has an extensive annual budgeting process that requires a complete analysis of actual spending in all areas on an account-by-account basis, and the preparation of detailed expenditure plans for all accounts

for the particular budget year. This process is exhaustive — no stone is left unturned. Additionally, management's compensation is tied to the achievement of these budgeted targets. Variances between actual and budgeted results are analyzed monthly at the divisional level and reported to senior management. A full written analysis of all accounts is also provided quarterly to senior management. At Regional, all levels of management are expected to drill down into the detail in order to keep their fingers on the pulse of the business. This ensures that problems or opportunities are quickly identified and acted upon.

The rapid growth of the Company from acquisitions has also created the opportunity to realize efficiencies and economies of scale. In particular, administrative overhead costs are spread over a larger revenue base and a larger buying power creates the opportunity for more volume discounts on purchases. Acquisitions are also subjected to an exhaustive evaluation and restructuring process as they are integrated into Regional to ensure that opportunities for cost reduction are identified and realized.

TECHNICAL EXPENSES

Technical expenses increased from \$15.2 million in fiscal 2000 to \$16.8 million in fiscal 2001, an increase of \$1.6 million or 10.7%. As a percentage of gross revenue, technical expenses averaged 16.9% in fiscal 1997 and 1998, then dropped to 15.7% of revenue in fiscal 1999 and 2000, and have now increased to 16.8% of revenue in fiscal 2001. This spending ratio is slightly higher than the 16.2% to 16.4% target for fiscal 2001 noted by management in last year's annual report. The increase in fiscal 2001 was due primarily to higher tariffed pole rental rates, higher fuel rates for the technical fleets and higher electricity rates, all of which were consistent with the expectations also noted by management in last year's annual report. These rate increases are not controllable by the Company. Based on Regional's fiscal 2002 budget, management has targeted technical spending to remain at approximately 16.8% of revenue in fiscal 2002. The Amtelecom Acquisition would initially be expected to increase technical costs on cable operations by \$850,000 (annualized) on annualized additional cable

and Internet revenue of \$4.9 million. The inclusion of these amounts would not change the fiscal 2002 technical expense to revenue ratio from the 16.8% target just noted. (For comparative consistency, this excludes the costs and revenues of the telephony business that would form part of the Amtelecom Acquisition). As always, Regional has been, and will continue to be, very diligent in keeping its cable systems in solid operating condition.

ADMINISTRATIVE EXPENSES

Administrative spending declined from approximately \$11.4 million in fiscal 2000 to just under \$10.8 million in fiscal 2001, a decline of approximately \$600,000 or 5.4%. As a percentage of revenue, administrative costs have fallen every year since fiscal 1994. Actual administrative expenditures were 10.7% of revenue in fiscal 2001, identical to that projected by management in the Company's fiscal 2000 annual report and down a full percentage point from the fiscal 2000 spending level of 11.7% of revenue.

The primary source of the reduced administrative spending that Regional enjoyed in fiscal 2001 was the restructuring of its Northern division. Among other things, that restructuring resulted in the elimination of 30 full-time positions late in fiscal 2000. The resultant cost reductions were more visible in fiscal 2001 as they were in effect for the entire 12 months of the year. Administrative spending in the Northern division, which generates nearly 50% of Regional's total revenue, was 8% of divisional revenue in fiscal 2001; down from 10.2% in fiscal 2000. The restructuring of acquired systems has long been an integral part of the Company's ongoing cost-control strategies. The expenditures of acquisition targets are initially analyzed and evaluated while performing due diligence activities during the acquisition stage. This is followed with more extensive analysis once the acquisition closes. Identified opportunities for cost reduction and efficiency gains are then exploited. By way of example, the noted reduction in staff levels in the Company's Northern division was but one part of a comprehensive restructuring program undertaken in that division. Other restructuring activities, which are common to most acquisitions, (including all eight acquisitions in fiscal 2001) and which contributed to the reduction in administrative expenditures in Regional's

Northern division from their average pre-acquisition level of 12.7% of divisional revenue to their current level of 8% of divisional revenue, included the following:

- Reduction of data processing costs by transferring acquired systems to Regional's very inexpensive customer database and billing software platform.
- Closure of local branch offices. By shifting administrative functions to a single divisional office, a variety of redundant administrative tasks are eliminated. Telephone costs, which are a significant customer service expense, are also reduced as Regional's service provider is used in all operations to take advantage of the Company's bulk buying power. An added benefit is the upgrading of customer service to Regional's high standards.
- Reduction of bad debts via the implementation of Regional's strict credit and collection policies. Consolidated bad debt expense was a mere 0.5% of revenue in fiscal 2001.
- Reduction of postage and related mailing costs incurred in billing subscribers by utilizing a single divisional service provider to take advantage of bulk buying power. These costs are among the largest administrative costs that have a direct correlation to such bulk buying power.

Discipline and focus with respect to cost control will continue to be one of Regional's trademarks. The Company has structured and planned its administrative spending to yield a budgeted administrative expense-to-revenue ratio of 10.7% in fiscal 2002, identical to that actually achieved in fiscal 2001. Included in this target are the costs of operating the Company's head office. These costs, which were 2.8% of revenue in both fiscal 2000 and fiscal 2001, are budgeted to remain at that level in fiscal 2002. The Amtelecom Acquisition would not be expected to have any significant impact on these administrative spending targets given the small size of the cable operations therein relative to Regional's existing cable business. (This analysis also excludes, for comparative consistency, the costs and revenue of the telephony business contained within the Amtelecom Acquisition).

MARKETING EXPENSES

Marketing expenses were approximately \$3.8 million in both fiscal 2000 and 2001. As a percentage of revenue, marketing costs were 2.7% in fiscal 1997, then increased to an average of 4.1% in fiscal 1998 through 2000, and have declined slightly to 3.8% of revenue in fiscal 2001. Spending was increased significantly after fiscal 1997 in order to protect and grow the Company's subscriber base in the increasingly competitive marketplace. The modest decline in the marketing expense to revenue ratio from fiscal 2000 to fiscal 2001 largely reflects the fact that most of the revenue growth in fiscal 2001 was attributable to the Company's telecom and Internet businesses. Regional's telecom business is largely contract based and its Internet business merely entails the provision of a broadband pipeline to other Internet service providers. Therefore, ongoing marketing costs in these businesses are not significant.

The amount expensed in the Company's financial statements for marketing activities does not provide a complete picture of Regional's overall marketing initiatives, for two reasons:

1. The Company continues to be successful in obtaining marketing support from signal suppliers. This has enabled it to undertake a variety of marketing initiatives with little increase in the net expenditure levels. Estimated support in each of fiscal 2000 and 2001 totaled \$250,000.
2. In fiscal 2000 and 2001, the Company's primary marketing initiatives were directed toward the launch of digital cable and Internet services. This will continue throughout fiscal 2002 as well. Launch costs are not charged to marketing expenses. Rather, they are recorded as deferred charges and are amortized on a straight-line basis over five years. Deferral, which is appropriate under Canadian generally accepted accounting principles, is also consistent with practices of other publicly traded Canadian cable television companies. Deferred launch costs totaled \$585,000 in fiscal 2000 and \$310,000 in fiscal 2001.

Absent the aforementioned marketing support and the deferral of launch costs, marketing expenses would have been approximately \$4.7 million or 4.8% of revenue in fiscal 2000 and \$4.4 million or 4.3% of revenue in fiscal 2001.

On this same basis, the Company's fiscal 2002 budget targets marketing expenditures of approximately \$4.7 million or 4.5% of revenue. This is targeted to be comprised of deferred launch costs of \$255,000, spending recorded as marketing expenses totaling \$4.2 million, and marketing support from signal providers of just under \$250,000. Status quo, the Amtelecom Acquisition would not be expected to have any significant impact on marketing costs given the relatively small size of the cable operations therein. (Again, for comparative consistency, this projected impact of the Amtelecom Acquisition ignores the costs and revenues of the telephony business therein).

BROADCAST SERVICES

Broadcast services expenditures are comprised primarily of community programming costs and programming fund contributions, which arise under CRTC regulations for Class 1 and 2 cable systems. The bulk of the Company's broadcast services expenditures are attributable to its Northern division since approximately 71,500 cable subscribers in its total base of 89,600 cable subscribers, or about 80% of its subscriber base, are located in Class 1 and 2 systems.

In managing its broadcast service expenditures, the Company's primary focus is on revenue generation rather than cost control. This is due to the fact that programming fund and community programming costs are CRTC regulated and are therefore largely non-controllable. The goal is the generation of advertising revenue and other ancillary revenues in an amount sufficient to recover the bulk of broadcast services expenditures. The compensation of management personnel responsible for broadcast services is tied to the achievement of this goal. This management approach was implemented in fiscal 2000 and has been very successful. Net broadcast services expenditures were reduced from \$434,000 in fiscal 1999 to \$34,000 in fiscal 2000, and were only \$170,000 in fiscal 2001. These reductions are significant given that they were achieved despite the fact that many of the CRTC regulated costs are based on revenue levels and total revenue has increased by 19.1% since fiscal 1999. Annualized broadcast services expenditures on cable operations within the Amtelecom Acquisition would be expected to initially

approximate \$115,000. The Company would immediately restructure the management approach with respect to these expenditures to mirror that of its existing operations in order to reduce such costs.

OPERATING INCOME (EBITDA) AND MARGINS

Fiscal 2001 EBITDA reached \$45.1 million, up nearly \$2.1 million or 4.8% over fiscal 2000 EBITDA of \$43 million. The Company's EBITDA margin also increased, from 44.4% last year to 45% this year. These increases were driven by rapid growth in the Company's telecom and Internet businesses and by negotiated reductions in signal costs on cable operations. Cable EBITDA declined by approximately \$667,000 or 1.6%, from \$41.8 million in fiscal 2000 to \$41.2 million in fiscal 2001, due primarily to subscriber churn. Over these same years, the Company's EBITDA margin on cable operations fell from 44% to 43.1% due to subscriber churn and to growth of digital cable services that carry lower margins than traditional analogue packages. Telecom EBITDA increased by 160% or \$1.6 million, from \$1 million in fiscal 2000 to \$2.6 million in fiscal 2001. The EBITDA margin on telecom operations also increased over these years from 79.5% to 88.4% as additional telecom contracts were layered on with a negligible increase in the direct costs of these operations. Internet operations, which generated no EBITDA in fiscal 2000, generated EBITDA of \$1.1 million with a 79.8% margin in fiscal 2001 due to rapid growth in both Internet subscriber levels and Internet availability. Fiscal 2001 microwave EBITDA of \$176,000 with a 37.7% margin was virtually identical to that achieved in fiscal 2000.

In fiscal 2002, management expects EBITDA and margins to be affected by three key factors:

1. It is anticipated that signal costs on existing cable operations will increase to approximately 27% of cable revenue from the fiscal 2001 level of 23.8% of cable revenue. This increase is expected to be caused by (i) the growth of tier and digital services which carry higher signal costs relative to revenue levels than traditional basic analogue services and by (ii) the continued expansion of channel lineups in the absence of both significant rate increases and signal waivers/rebates.

2. Significant growth is expected for the Company's telecom and Internet businesses. The targeted EBITDA margins for the telecom and Internet operations for fiscal 2001 are 87.2% and 91.7%, respectively.
3. The successful closure of the Amtelecom Acquisition would be expected to initially add \$12.6 million in annualized EBITDA at a 52% margin.

FINANCING ACTIVITY AND INTEREST EXPENSE

In fiscal 2001, long term debt proceeds totaled \$106.3 million and repayments totaled \$71.8 million. Proceeds were comprised of \$103 million raised from a senior secured debenture issuance (the "New Debentures") in March, 2001, and net drawdowns of \$3.3 million on the Company's revolving term credit facility (the "Revolver"). Repayments consisted of \$68.3 million paid on the senior secured debentures that had existed prior to the issuance of the New Debentures (the "Old Debentures"), \$2.9 million of principal repayments on the New Debentures, which principal repayments commenced April 1, 2001, at a rate of \$572,222 per month, and approximately \$600,000 of principal repayments on capital lease obligations. In addition to the foregoing, capital lease obligations of \$1,980,000 were forgiven during the year as the Company restructured its decoder provisioning arrangements with a major signal supplier. The resultant gain of \$1,980,000, which is disclosed as a separate line item in the Company's fiscal 2001 consolidated statement of operations, was entirely sheltered from tax via utilization of an equal amount of the Company's capital tax loss carryforwards.

The proceeds of \$103 million from the issuance of the New Debentures were used to (i) retire the Old Debentures, which had a principal balance of \$65.3 million at the time of retirement, (ii) pay down the Revolver by \$34.6 million, (iii) fund legal and other issuance costs totaling approximately \$1.6 million and to (iv) pay a make-whole premium on the Old Debentures at retirement of \$935,000. This make-whole premium is disclosed as a separate line item called "Refinancing Costs" on the Company's consolidated statement of operations for fiscal 2001. Remaining proceeds of approximately \$600,000 were added to working capital.

The \$3.3 million increase in the Revolver was comprised of net drawdowns on the facility of \$37.9 million less the aforementioned repayment of \$34.6 million that was financed with the New Debentures. Of the \$37.9 million of net drawdowns, \$20.9 million was used to finance the acquisition of eight cable television companies during the year and the remaining \$17 million was added to working capital and used primarily to fund capital asset purchases.

The \$68.3 million total pay out on the Old Debentures was comprised of six monthly principal repayments of \$500,000 each made prior to their retirement date and a lump sum payment of \$65.3 million made at the retirement date. These monthly principal repayments were funded from cash flow and the lump sum payment on retirement was financed from proceeds of the New Debenture issuance. Monthly principal repayments on the New Debentures and on capital leases during the year were financed from cash flow.

As a result of the foregoing transactions, total debt increased by \$34.6 million and stood at approximately \$187.5 million at the end of fiscal 2001, comprised of New Debentures totaling \$100.1 million, a Revolver balance of \$86.9 million and capital lease obligations of just under \$500,000. The Company's debt leverage ratio (total debt to EBITDA) increased from 3.6:1 at August 31, 2000, to 4.2:1 at August 31, 2001, due to the increased debt load. The current portion of long-term debt, which was \$20.7 million at the end of fiscal 2001, was comprised of \$13.5 million of Revolver debt due July 1, 2002, \$6.9 million of principal repayments due under the New Debentures (12 monthly principal repayments of \$572,222), and \$300,000 of capital lease obligations. The current Revolver debt was drawn on June 30, 2001, under the special bridging provisions of the facility to finance the acquisition of two cable television companies. Drawdowns under such bridging provisions mature twelve months from the drawdown date.

The New Debentures bear a fixed interest rate of 7.452%, down from a weighted average fixed rate of interest of 8.2% on the Old Debentures. Revolver draws were primarily in the form of bankers' acceptances with discount and stamping fees yielding an average overall floating rate of interest on the Revolver of approximately 6% during fiscal 2001. Capital leases carried a variety of interest rates.

Total interest costs increased from approximately \$10.8 million in fiscal 2000 to \$12.7 million in fiscal 2001 due to the increased debt load. This, in turn, reduced the Company's interest coverage ratio (EBITDA to interest expense) from 4:1 in fiscal 2000 to 3.6:1 in fiscal 2001.

At the beginning of fiscal 2001, Regional had 14,743,900 common shares outstanding. On September 1, 2000, the Company issued 1,223,491 common shares with a fair value of approximately \$16.8 million to Saskatchewan Telecommunications Holding Corporation ("Sasktel") to acquire the 29.9% minority interest position that Sasktel held in Regional Cable TV (Western) Inc. ("Western"), thereby making Western a wholly owned subsidiary of Regional. On the same date, Regional and Western were amalgamated to continue operations as Regional Cablesystems Inc. Western is operated as the Company's Western division. During the year the Company also issued 521,812 common shares with a fair value of approximately \$6.2 million as partial consideration for the acquisition of two cable television companies. As well, 11,000 common shares were issued in connection with exercises of various stock options for gross proceeds of \$86,000, which was added to working capital. Regional ended the year with 16,500,203 common shares outstanding. Effective September 1, 2001 shareholders¹ exchanged their common shares in Regional for an equal number of common shares in Persona and Regional became a wholly owned subsidiary of Persona. Persona's only asset is the common shares of Regional. Subsequently, on September 10, 2001, Persona common shares commenced trading on the Toronto Stock Exchange under the symbol "PSA".

During the year, shareholders approved a shareholder rights plan (the "Rights Plan"). The Rights Plan was adopted by Persona effective September 1, 2001. The rights issued under the Rights Plan, one right per common share, become exercisable only when a party acquires or intends to acquire 20% or more of Persona's outstanding common shares without complying with the "Permitted Bid" provision of the Rights Plan or without approval of the Board of Directors. Each right, upon exercise, entitles a rights holder, other than the acquirer, to purchase one common share of Persona at a 50% discount to the market price at

that time. The Rights Plan will expire at the close of the annual meeting of shareholders in 2004.

The undrawn reserve on the Revolver was \$88.1 million at the end of fiscal 2001. This amount is available to finance additional acquisitions and for other general corporate purposes. If the Amtelecom Acquisition occurs, it would be management's intention to initially finance that acquisition via a drawdown under the bridging provisions of the Revolver, which drawdown would be added to current debt. It is estimated that such drawdown would approach \$65 million. This would leave the Company with undrawn Revolver room of \$23.1 million absent any other Revolver transactions that might occur. This remaining capacity is expected to be sufficient for Regional's needs in fiscal 2002. Management has begun to evaluate various refinancing alternatives for the Company's Revolver debt. In particular, it is anticipated that the current portion of the Revolver debt will at least be partially refinanced via an equity issuance by Persona in fiscal 2002.

CAPITAL ACTIVITY AND AMORTIZATION EXPENSE

Capital expenditures, which totaled \$20.6 million or \$95 per subscriber in fiscal 1999, increased to \$28.8 million or \$122 per subscriber in fiscal 2000 and have now further increased to \$36.6 million or \$158 per subscriber in fiscal 2001. The primary cause of these increases is the Company's comprehensive cable system upgrade strategy, which commenced midway through fiscal 2000, and which is designed to allow the Company to rapidly enhance product offerings, to grow its lucrative telecom business and to aggressively roll out digital cable and Internet services. The Company's fiscal 2002 budget targets capital expenditures to decline to \$25.1 million as its cable system upgrade program winds down. Of this amount, it is expected that approximately \$20 million will be financed from cash flow with the remainder being funded through drawdowns on the Revolver.

Included in fiscal 2001 capital expenditures was \$23 million for plant upgrades (including 288 kilometers of additional fibre optic plant) and headend equipment directed towards the roll out of Internet and digital cable services. The Company also spent \$6.2 million on digital set top boxes and other equipment.

Capital expenditures on the Company's telecom business totaled \$4.5 million in the year. Remaining fiscal 2001 capital expenditures of \$2.9 million were distributed over a variety of items. Cash flow of \$19.6 million and Revolver drawdowns of \$17 million were used to finance these capital expenditures.

Amortization charges, which totaled \$18.5 million in fiscal 2000, increased by approximately \$3.1 million to \$21.6 million in fiscal 2001. Of this \$3.1 million increase, approximately \$2.4 million was attributable to capital assets, \$538,000 to subscriber costs and the remainder to deferred charges. There are three reasons for the increased amortization:

1. **Acquisitions.** In fiscal 2000 the Company acquired eight cable television companies for a gross purchase price of \$33.6 million that resulted in the addition of \$22 million to its capital asset base and \$12.9 million to its subscriber cost base. Of the \$33.6 million total purchase price, \$27.3 million or 81% was spent on or after February 1, 2000, and would have therefore been subject to a maximum amortization period of seven months in fiscal 2000. In fiscal 2001 a full year of amortization would have been recorded on these acquisition costs. An additional eight cable television companies were acquired in fiscal 2001 for a gross purchase price of \$27.1 million. These acquisitions added a further \$2.2 million to the Company's capital asset base and \$25.8 million to its subscriber cost base.
2. **Increased capital expenditures** in both fiscal 2000 and 2001. The impact was especially noticeable in fiscal 2001 because of the timing of the increased capital spending under the Company's comprehensive cable system upgrade program. Specifically, such program commenced midway through fiscal 2000. Therefore, in that year the increased spending would have been subject to six months of amortization at most, versus twelve months in fiscal 2001. As well, most of the additional spending that was caused by the upgrade program occurred in fiscal 2001 (which is why fiscal 2001 capital expenditures were \$7.8 million or 27% higher than those of fiscal 2000).

3. **The buy-out of Sasktel's 29.9% minority interest position** in Western. This transaction added \$12.1 million to Regional's subscriber cost base and this amount was subject to a full twelve months of amortization in fiscal 2001 since the buy-out occurred on September 1, 2000.

Effective September 1, 2001, Regional has adopted new CICA standards pertaining to the amortization of goodwill and other intangible assets with an indefinite life. Under the new standards, Regional will no longer amortize its subscriber cost base. Instead, the subscriber cost base will be subjected to an annual impairment test under which its fair value is calculated and compared to its book value. An impairment loss would be charged to income to the extent that the book value exceeded the calculated fair value. Given that amortization on the subscriber cost base was approximately \$4 million in fiscal 2001, the new standard will have a material impact on future amortization charges and, absent any impairment losses, on future net income levels.

The \$67 million Amtelecom Acquisition, if successfully closed in fiscal 2002, is expected to add approximately \$29 million to the Company's capital asset base and \$38 million to its subscriber cost base in that year. Of the \$29 million capital asset addition, it is expected that \$23.2 million would be allocated to the telephony assets with the remaining \$5.8 million being allocated to the cable and Internet assets. The telephony assets would be amortized using the equal life group method of amortization which is the general practice in the telecommunications industry in Canada. Under such method, the cost of assets less their estimated salvage value is amortized on a straight-line basis over their estimated useful lives. The acquired cable and Internet assets would be amortized in accordance with Regional's existing policies for such assets. The \$38 million addition to subscriber costs would not be amortized.

TAXES

Fiscal 2001 taxes totaled \$4.1 million and were comprised of current capital taxes of \$1.5 million, current income tax of \$1.3 million and future income tax of \$1.3 million. The Company utilized \$1,980,000 of capital tax loss carryforwards in the year to shelter a capital gain of this amount on the forgiveness of debt. As noted previously, such debt forgiveness arose from

the restructuring of decoder provisioning arrangements with a major signal supplier. Regional still has capital tax loss carryforwards of \$58.2 million remaining which can be carried forward indefinitely and used to shelter future capital gains. Management continues to actively explore ways to utilize these remaining carryforwards.

Capital taxes are comprised of the federal "large corporation tax" and various provincial taxes on capital. The increase in capital taxes from \$1.1 million last year to \$1.5 million in fiscal 2001 was attributable to the increase in the Company's capital base due to increased debt and equity to finance acquisitions and heavy capital expenditures in the year. Regional's weighted average effective capital tax rate is approximately 0.45%. The Amtelecom Acquisition would reduce this rate slightly by virtue of the fact that the acquired capital base would be situated in Ontario which has one of the lowest provincial capital tax rates in the country.

The Company's combined statutory income tax rate was 42.6% in fiscal 2001, down slightly from the fiscal 2000 rate of 42.72%. This rate will further drop to 40.2% in fiscal 2002 due to continued federal tax rate reductions. Tax on income (fiscal 2001 — \$2.6 million, fiscal 2000 — \$6.4 million) as a percentage of accounting income before tax (fiscal 2001 — \$12.1 million, less \$2 million gain on debt forgiveness sheltered from tax via utilization of capital tax loss carryforwards, which equals \$10.1 million, fiscal 2000 — \$12.4 million) was 25.7% in fiscal 2001 and 51.6% in fiscal 2000. The decline in the calculated tax rates and the fact that neither of these calculated tax rates matches the Company's combined statutory tax rate can be explained as follows:

- Most amortization on the Company's subscriber cost base is not tax deductible since most of such base arose from the acquisition of the shares of various cable television companies purchased by Regional over the years. This causes tax provisions as a percentage of accounting income to appear higher than the Company's true effective tax rate. In fiscal 2000, for example, \$2.8 million of the total subscriber cost amortization of \$3.4 million in that year was not tax deductible. When fiscal 2000 accounting income is adjusted for this, the \$6.4 million income tax provision in that year

as a percentage of such adjusted accounting income is approximately 42.1% — virtually identical to the fiscal 2000 statutory rate of tax.

- The Company follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized based on the expected future tax consequences of differences between the carrying value of balance sheet items and their corresponding tax basis, using the enacted and substantively enacted income tax rates for the years in which the differences are expected to reverse. The reductions in the statutory rates of tax that will occur over the next several years are therefore factored into the calculation of Regional's future income tax expense for the current year. This reduced the fiscal 2001 future tax provision significantly.

As noted earlier, the Company's combined statutory income tax rate in fiscal 2002 will drop to 40.2%. The elimination of subscriber cost amortization will also have a material impact on the relationship between income tax expense and accounting income in fiscal 2002 and beyond. These factors, along with the reductions in future income tax expense caused by the recognition of future declines in statutory tax rates, will result in an estimated ratio of income tax expense to accounting income in fiscal 2002 of 35%.

NET INCOME, CASH FLOW AND PER-SHARE AMOUNTS

Net income for fiscal 2001 was nearly \$8.1 million or \$0.50 per share, up approximately \$3.4 million or 72% over fiscal 2000 net income of \$4.7 million or \$0.31 per share. Cash flow declined from \$29.6 million or \$1.99 per share in fiscal 2000 to \$28.7 million or \$1.79 per share in fiscal 2001 due to increased interest charges and current taxes. Adjusted for non-recurring items (fiscal 2001 — refinancing charge of \$935,000 or \$537,000 net of tax, and a gain on debt forgiveness of nearly \$2 million, fiscal 2000 — restructuring charge of \$1.2 million or \$687,000 net of tax), net income increased from \$5.4 million or \$0.36 per share to \$6.6 million or \$0.41 per share over the same years. Adjusted for non-recurring items, cash flow declined from \$30.3 million or \$2.04 per share in fiscal 2000 to \$29.2 million or \$1.82 per share in fiscal 2001.

FIVE YEAR

SUMMARY

(FISCAL YEARS ENDED AUGUST 31)

	2001	2000	1999	1998	1997
Subscriber Data (1)					
Revenue Generating Units (2)	345,100	326,900	275,600	138,400	132,400
Cable					
All Systems					
Basic Subscribers	231,900	236,100	217,600	113,500	111,600
Homes Passed	396,300	374,700	324,100	190,100	189,400
Penetration Rate	58.5%	63.0%	67.1%	59.7%	58.9%
Average Basic Subscribers	232,300	234,000	205,000	114,400	114,500
Basic Subscribers					
Acquired (Net)	16,305	32,080	108,550	—	(4,800)
Tier Subscriptions	139,500	126,500	111,500	20,800	13,300
"Analogue Only" Systems					
Basic Subscribers	161,800	180,000	217,600	113,500	111,600
Homes Passed	300,900	298,500	324,100	190,100	189,400
Penetration Rate	53.8%	60.3%	67.1%	59.7%	58.9%
Digital Systems					
Digital Set Top Devices Deployed	10,615	5,465	—	—	—
Digital Subscribers	8,235	4,825	—	—	—
Analogue Subscribers	61,865	51,275	—	—	—
Total Subscribers	70,100	56,100	—	—	—
Homes Passed	95,400	76,200	—	—	—
Digital Penetration Rate	8.6%	6.3%	—	—	—
Analogue Penetration Rate	64.9%	67.3%	—	—	—
Total Penetration Rate	73.5%	73.6%	—	—	—
Internet					
High-speed Subscribers	6,870	900	200	—	—
Dial-up Subscribers	560	—	—	—	—
Total Subscribers	7,430	900	200	—	—
Homes Passed	129,300	76,200	76,200	—	—
Penetration Rate	5.7%	1.2%	0.3%	—	—
Income Statement Data					
Revenue (\$'000's)					
Cable	\$ 95,448	\$ 95,049	\$ 83,202	\$ 47,197	\$ 44,487
Telecom	\$ 2,968	\$ 1,271	\$ 518	—	—
Internet	\$ 1,394	\$ 142	\$ 78	—	—
Microwave	\$ 467	\$ 468	\$ 416	—	—
Total	\$ 100,277	\$ 96,930	\$ 84,214	\$ 47,197	\$ 44,487
Operating Income (EBITDA) (\$'000's) (3)					
Cable	\$ 41,161	\$ 41,828	\$ 37,509	\$ 23,226	\$ 21,904
Telecom	\$ 2,624	\$ 1,010	\$ 257	—	—
Internet	\$ 1,112	—	—	—	—
Microwave	\$ 176	\$ 179	\$ 183	—	—
Total	\$ 45,073	\$ 43,017	\$ 37,949	\$ 23,226	\$ 21,904

FIVE YEAR
SUMMARY cont'd

(FISCAL YEARS ENDED AUGUST 31)

	2001	2000	1999	1998	1997
Operating (EBITDA) Margins (4)					
Cable	43.1%	44.0%	45.1%	49.2%	49.2%
Telecom	88.4%	79.5%	49.6%	—	—
Internet	79.8%	—	—	—	—
Microwave	37.7%	38.2%	44.0%	—	—
All Operations	45.0%	44.4%	45.1%	49.2%	49.2%
Cost, % Of Revenue (5)					
Signal & Copyright	23.8%	24.0%	21.8%	17.5%	18.1%
Operating Expenses					
Technical	16.8%	15.7%	15.7%	16.8%	17.0%
Administration	10.7%	11.7%	12.3%	12.4%	13.0%
Marketing	3.8%	4.0%	4.2%	4.1%	2.7%
Broadcast Services	0.2%	—	0.5%	—	—
Total Operating Expenses	31.5%	31.4%	32.7%	33.3%	32.7%
Other (\$000's)					
Cash Flow (6)	\$ 28,702	\$ 29,612	\$ 27,280	\$ 15,316	\$ 13,755
Free Cash Flow (7)	\$ (7,895)	\$ 805	\$ 6,713	\$ 5,270	\$ 5,815
Net Income Before Tax	\$ 12,122	\$ 12,194	\$ 19,810	\$ 7,600	\$ 6,355
Net Income Excluding					
Non-Recurring Items (8)	\$ 6,607	\$ 5,365	\$ 5,332	\$ 2,662	\$ 4,798
Net Income	\$ 8,050	\$ 4,678	\$ 10,532	\$ 3,076	\$ 6,026
Balance Sheet Data (\$000's)					
Total Assets	\$ 363,509	\$ 297,318	\$ 259,313	\$ 176,439	\$ 106,204
Total Liabilities	\$ 242,193	\$ 207,152	\$ 171,429	\$ 98,191	\$ 104,702
Shareholders' Equity	\$ 121,316	\$ 90,166	\$ 87,884	\$ 78,248	\$ 1,502
Total Debt	\$ 187,483	\$ 154,930	\$ 129,785	\$ 84,309	\$ 93,712
Net Debt (9)	\$ 184,449	\$ 152,528	\$ 122,059	\$ 20,563	\$ 85,786
Per Share Data (10)					
Operating Income (EBITDA)	\$ 2.80	\$ 2.89	\$ 2.55	\$ 2.14	\$ 3.89
Cash Flow	\$ 1.79	\$ 1.99	\$ 1.84	\$ 1.41	\$ 2.45
Net Income Before Tax	\$ 0.75	\$ 0.82	\$ 1.33	\$ 0.70	\$ 1.13
Net Income Excluding					
Non-Recurring Items (8)	\$ 0.41	\$ 0.36	\$ 0.36	\$ 0.24	\$ 0.86
Net Income	\$ 0.50	\$ 0.31	\$ 0.72	\$ 0.28	\$ 0.97
Average Market Price	\$ 10.87	\$ 14.65	\$ 12.83	\$ 10.64	\$ 6.30
Enterprise Value/EBITDA (11)	8.0	8.7	8.4	8.6	5.9
Average Market Price/Cash Flow	6.1	7.4	7.0	7.5	2.6
Average Market Price/Earnings	21.7	47.3	17.8	38.0	6.5
Key Ratios					
Total Debt/EBITDA	4.2 times	3.6 times	3.4 times	3.6 times	4.3 times
EBITDA/Interest Expense	3.6 times	4.0 times	4.1 times	3.2 times	2.8 times
Cable Revenue Per Cable					
Subscriber Per Month (12)	\$ 34.24	\$ 33.85	\$ 33.82	\$ 34.38	\$ 32.38
Cable EBITDA Per Cable					
Subscriber Per Month (12)	\$ 14.76	\$ 14.90	\$ 15.25	\$ 16.92	\$ 15.94

FIVE YEAR
SUMMARY cont'd

(FISCAL YEARS ENDED AUGUST 31)

	2001	2000	1999	1998	1997
Internet Revenue Per Dial-up Internet Subscriber Per Month (12)	\$ 12.04	—	—	—	—
Internet Revenue Per High-speed Internet Subscriber Per Month (12)	\$ 28.25	\$ 21.83	—	—	—
Internet EBITDA Per Dial-up Internet Subscriber Per Month (12)	\$ 9.61	—	—	—	—
Internet EBITDA Per High-speed Internet Subscriber Per Month (12)	\$ 22.54	—	—	—	—
Bad debts, Percent Of Revenue	0.5%	0.3%	0.4%	0.4%	0.6%
Capital Expenditures Per Subscriber	\$ 158	\$ 122	\$ 95	\$ 89	\$ 71
Other Data					
Capital Tax Loss					
Carryforwards (\$000's)	\$ 58,200	\$ 60,200	\$ 60,200	\$ 65,400	\$ 65,400
Common Shares Outstanding, At Fiscal Year End (000's)	16,500	14,744	14,910	14,744	6,494
Common Shares Outstanding, Weighted Average (000's)	16,071	14,888	14,859	10,862	5,637
Kilometers Of Fibre Optic Plant	1,954	1,666	1,508	436	211
Total Capital Expenditures (\$000's)	\$ 36,597	\$ 28,807	\$ 20,567	\$ 10,046	\$ 7,940

(1) Subscriber data is at year end unless otherwise indicated.

(2) Revenue generating units means average monthly gross revenue divided by the weighted average basic monthly cable rate.

(3) Operating income (EBITDA) means net income before interest, taxes and non-cash items.

(4) Operating (EBITDA) margin means operating income (EBITDA) divided by gross revenue.

(5) Signal & copyright expenses are expressed as a percentage of cable revenue. Operating expenses are expressed as a percentage of total revenue.

(6) Cash flow means net income before non-cash items.

(7) Free cash flow means cash flow less capital expenditures.

(8) Non-recurring items are:

(i) Fiscal 2001

- Gain of \$1.98 million on the forgiveness of debt, resulting from the restructuring of decoder provisioning arrangements with a major signal supplier. No tax impact as resultant capital gain was sheltered by the Company's capital tax loss carryforwards.
- Refinancing charges of \$935,000 (net of tax, \$537,000) incurred in connection with the issuance, on a private placement basis, of debentures totaling \$103 million.

(ii) Fiscal 2000

- Restructuring charge of \$1.2 million (net of tax, \$687,000) incurred in connection with the restructuring of the Company's Northern division.

(iii) Fiscal 1999

- Gains on dispositions of redundant assets and non-core cable systems of \$6 million (net of tax, \$5.2 million).

(iv) Fiscal 1998

- Divestiture gain on discontinued (U.S.) operations, \$414,000.

(v) Fiscal 1997

- Divestiture gain on discontinued (U.S.) operations, \$585,000.
- Gain on disposition of non-core cable systems, \$643,000.

(9) Net debt means total debt less cash on hand.

(10) Per share data is based on the weighted average number of common shares outstanding during the year.

(11) Enterprise Value means the sum of (i) the weighted average number of common shares outstanding during the year multiplied by the average market price per share and (ii) total debt.

(12) Based on average subscriber levels for the year.

SELECTED

QUARTERLY INFORMATION

	FISCAL 2001					FISCAL 2000				
	Q1	Q2	Q3	Q4	ANNUAL	Q1	Q2	Q3	Q4	ANNUAL
OPERATING RESULTS (\$000's)										
Revenue	\$ 24,773	\$ 24,609	\$ 24,862	\$ 26,033	\$ 100,277	\$ 22,822	\$ 23,977	\$ 25,187	\$ 24,944	\$ 96,930
Operating Income (EBITDA)	\$ 12,001	\$ 11,166	\$ 11,141	\$ 10,765	\$ 45,073	\$ 9,869	\$ 10,816	\$ 10,820	\$ 11,512	\$ 43,017
Cash Flow	\$ 7,652	\$ 7,134	\$ 5,816	\$ 8,100	\$ 28,702	\$ 6,754	\$ 7,611	\$ 7,373	\$ 7,874	\$ 29,612
Net Income Before Tax	\$ 4,405	\$ 4,726	\$ 1,007	\$ 1,984	\$ 12,122	\$ 3,256	\$ 3,819	\$ 3,256	\$ 1,863	\$ 12,194
Net Income Excluding										
Unusual Items (1)	\$ 1,810	\$ 812	\$ 335	\$ 3,650	\$ 6,607	\$ 1,134	\$ 1,370	\$ 991	\$ 1,870	\$ 5,365
Net Income (Loss)	\$ 1,810	\$ 2,792	\$ (201)	\$ 3,649	\$ 8,050	\$ 1,134	\$ 1,370	\$ 991	\$ 1,183	\$ 4,678
PER SHARE DATA (2)										
Cash Flow	\$ 0.48	\$ 0.45	\$ 0.36	\$ 0.50	\$ 1.79	\$ 0.45	\$ 0.51	\$ 0.49	\$ 0.53	\$ 1.99
Net Income Excluding										
Unusual Items	\$ 0.11	\$ 0.05	\$ 0.02	\$ 0.23	\$ 0.41	\$ 0.08	\$ 0.09	\$ 0.07	\$ 0.13	\$ 0.36
Net Income (Loss)	\$ 0.11	\$ 0.17	\$ (0.01)	\$ 0.23	\$ 0.50	\$ 0.08	\$ 0.09	\$ 0.07	\$ 0.08	\$ 0.31
TRADING STATISTICS										
High	\$ 14.20	\$ 14.00	\$ 11.95	\$ 12.65	\$ 14.20	\$ 14.50	\$ 20.25	\$ 20.95	\$ 16.00	\$ 20.95
Low	\$ 9.75	\$ 9.80	\$ 9.00	\$ 8.01	\$ 8.01	\$ 12.75	\$ 12.50	\$ 13.00	\$ 8.50	\$ 8.50
Close	\$ 10.10	\$ 11.25	\$ 11.50	\$ 8.60	\$ 8.60	\$ 13.25	\$ 19.00	\$ 13.75	\$ 12.25	\$ 12.25
Volume (Shares)	2,627,970	1,191,628	1,738,987	1,729,173	7,287,758	620,090	6,463,725	1,939,987	2,908,657	11,932,459

(1) Unusual items are:

- Fiscal 2000, fourth quarter, charge of \$1.2 million (*net of tax, \$687,000*) incurred in connection with the restructuring of the Company's Northern division.
- Fiscal 2001, second quarter, gain of \$1.98 million on the forgiveness of debt, resulting from the restructuring of decoder provisioning arrangements with a major signal supplier. No tax impact as resultant capital gain was sheltered by the Company's capital tax loss carryforwards.
- Fiscal 2001, third and fourth quarters, refinancing costs of \$933,000 and \$1,600 respectively (*net of tax, \$536,000 and \$900, respectively*) incurred in connection with the issuance, on a private placement basis, of debentures totaling \$103 million.

(2) The sum of the quarterly per-share amounts may not equal the annual totals due to quarterly fluctuations in the weighted average number of common shares outstanding and to rounding differences.

MANAGEMENT'S REPORT

The management of Regional Cablesystems Inc. is responsible for the preparation and integrity of the financial statements and related financial information of the Company. The financial statements in this annual report have been prepared by Company management in accordance with Canadian generally accepted accounting principles and, where necessary, utilizing management's judgement and best estimates. The financial and operating information presented elsewhere in this annual report is consistent with that shown in the financial statements.

To help fulfill its responsibility, and to ensure integrity of financial reporting, management maintains a system of internal controls encompassing all financial records. These controls, which include timely periodic reporting of financial information, provide reasonable assurance that assets are safeguarded and transactions and events are properly recorded. The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee, which reviews the annual financial statements of the Company and recommends their approval to the Board of Directors.

Ernst & Young LLP, independent auditors appointed by the shareholders, have free access to the Audit Committee both with and without management present. The auditors have examined the financial statements in this annual report and have reported their findings, including the fairness of financial reporting and the results of their review of internal controls, to management and the Audit Committee. The auditors report directly to the shareholders and have expressed their opinion on the Company's financial statements in the following report.

AUDITORS' REPORT

To the Shareholders of
Regional Cablesystems Inc.

We have audited the consolidated balance sheet of Regional Cablesystems Inc. as at August 31, 2001 and the consolidated statements of deficit, operations and cash flows for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at August 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at August 31, 2000 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated October 26, 2000.

St. John's, Canada,
September 28, 2001.

Ernst & Young LLP
Chartered Accountants

CONSOLIDATED**BALANCE SHEETS**

	As at August 31 (in thousands of dollars)	2001	2000
ASSETS (Note 6)			
Current			
Cash	\$	3,034	\$ 2,402
Accounts receivable		6,131	2,719
Inventory		6,713	2,613
Prepaid expenses		1,949	1,445
Total current assets		17,827	9,179
Notes receivable from related parties (Note 3)		1,000	522
Capital assets (Note 4)		174,405	151,953
Subscriber costs		166,910	132,927
Deferred charges (Note 5)		3,367	2,737
	\$	363,509	\$ 297,318
LIABILITIES			
Current			
Accounts payable and accrued liabilities	\$	27,031	\$ 21,151
Subscriber prepayments		5,049	5,106
Current portion of long-term debt (Note 6)		20,668	7,235
Total current liabilities		52,748	33,492
Long-term debt (Note 6)		166,815	147,695
Future income taxes (Note 8)		22,630	21,243
Non-controlling interest (Note 9)		—	4,722
Total liabilities		242,193	207,152
SHAREHOLDERS' EQUITY			
Share capital (Note 7)		174,854	151,754
Deficit		(53,538)	(61,588)
Total shareholders' equity		121,316	90,166
Commitments and contingencies (Note 11)			
	\$	363,509	\$ 297,318

See accompanying notes

On behalf of the Board


Director


Director

CONSOLIDATED**STATEMENTS OF DEFICIT**

Year ended August 31 (in thousands of dollars)

2001**2000**

Deficit, beginning of year	\$ (61,588)	\$ (65,746)
Net income	8,050	4,678
Shares repurchased (Note 7)	—	(520)
Deficit, end of year	\$ (53,538)	\$ (61,588)

See accompanying notes

CONSOLIDATED**STATEMENTS OF OPERATIONS**

Year ended August 31 (in thousands of dollars, except per share data)

2001**2000****REVENUE**

Cable	\$ 95,448	\$ 95,049
Telecom	2,968	1,271
Internet	1,394	142
Microwave	467	468
	100,277	96,930

DIRECT COSTS

Signal and copyright	22,731	22,788
Telecom	344	261
Internet	282	142
Microwave	291	289
	23,648	23,480

Net revenue**76,629** **73,450****OPERATING EXPENSES**

Technical	16,797	15,179
Administration	10,762	11,380
Marketing	3,827	3,840
Broadcast services	170	34
	31,556	30,433

Operating income before amortization

45,073 **43,017**

Amortization

21,557 **18,507**

Operating income

23,516 **24,510**

Other expenses (income)

Interest	12,695	10,829
(Gain) loss on disposal of capital assets	(256)	78
Refinancing costs	935	—
Gain on forgiveness of debt (Note 6)	(1,980)	—
Restructuring costs	—	1,200

11,394 **12,107**

Income before undernoted items

12,122 **12,403**

Income taxes (Note 8)

4,072 **7,516**

Income before non-controlling interest

8,050 **4,887**

Non-controlling interest

— **209****Net income****\$ 8,050** **\$ 4,678****Net income per share (Note 10)****\$ 0.50** **\$ 0.31**

See accompanying notes

CONSOLIDATED**STATEMENTS OF CASH FLOWS***Year ended August 31 (in thousands of dollars, except per share data)*

	2001	2000
OPERATING ACTIVITIES		
Net income	\$ 8,050	\$ 4,678
Adjustments for		
Amortization of capital assets	15,901	13,471
Amortization of subscriber costs	3,961	3,423
Amortization of deferred financing costs	1,466	1,394
Amortization of other deferred charges	229	219
(Gain) loss on disposal of capital assets	(256)	78
Gain on forgiveness of debt	(1,980)	—
Future income taxes	1,331	6,140
Non-controlling interest	—	209
	28,702	29,612
Change in non-cash operating working capital (net of effects of acquisition of subsidiaries)	(3,092)	839
Cash provided by operating activities	25,610	30,451
INVESTING ACTIVITIES		
Business acquisitions, net cash paid (Note 9)	(20,939)	(31,196)
Proceeds from disposal of capital assets	755	192
Purchases of capital assets	(36,597)	(28,807)
Increase in notes receivable from related parties	(478)	—
Deferred charges	(2,325)	(657)
Cash used in investing activities	(59,584)	(60,468)
FINANCING ACTIVITIES		
Long-term debt proceeds	106,300	33,725
Long-term debt repayments	(71,767)	(8,580)
Share repurchases	—	(2,695)
Net proceeds on share issuances	73	299
Investment by non-controlling shareholder in subsidiary	—	1,944
Cash provided by financing activities	34,606	24,693
Net increase (decrease) in cash during the year	632	(5,324)
Cash, beginning of year	2,402	7,726
Cash, end of year	\$ 3,034	\$ 2,402
Cash flow from operations per share (Note 10)	\$ 1.79	\$ 1.99

See accompanying notes

1. DESCRIPTION OF THE BUSINESS

Regional Cablesystems Inc. ("Regional") and its 100% owned subsidiaries (collectively, the "Company") operate cable television and related telecommunications businesses in non-metropolitan markets in Canada. During the year ended August 31, 2001, the Company's Western division served approximately 54,000 subscribers in British Columbia, Alberta, Saskatchewan and Manitoba. The Company's Atlantic division served approximately 53,000 subscribers in Newfoundland, its Central division served approximately 35,000 subscribers in southeastern Ontario and Quebec and its Northern division served approximately 90,000 subscribers in northern Ontario.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Principles of consolidation

The consolidated financial statements include the accounts of Regional and its subsidiaries. Significant intercompany accounts and transactions have been eliminated.

Inventory

Inventory, consisting primarily of materials and supplies, is recorded at the lower of cost determined on a first-in first-out basis and net realizable value.

Capital assets

Capital assets are recorded at the cost of acquisition.

Amortization is provided over the estimated useful lives of the capital assets primarily as follows:

Buildings	5% declining balance
Cable and telecommunications distribution systems	20 years straight line
Microwave systems	20 years straight line
Other equipment	10% to 30% straight line and 20% declining balance
Vehicles	40% straight line and 40% declining balance
Leasehold improvements	Life of lease, straight line

Subscriber costs

Subscriber costs represent the excess of the purchase price over the fair value of the identifiable net tangible and intangible assets arising from the acquisition of cable television systems. Identifiable net intangible assets acquired consist primarily of the subscriber base and cable television licenses issued by the Canadian Radio-television and Telecommunications Commission. Subscriber costs are amortized on a straight-line basis over 40 years.

The Company assesses the continuing value of subscriber costs each year by considering current operating results as well as undiscounted cash flows or market related value. If an impairment in value occurs, the subscriber costs will be reduced by a charge to operations in the year of impairment.

Deferred charges

Deferred charges are comprised primarily of financing and new service launch costs. Deferred charges arising on financing are amortized on a straight line basis over the repayment term of the related debt. New service launch costs are amortized on a straight line basis over a period not exceeding five years.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition

Revenue from cable television, telecom, Internet and microwave services includes earned subscriber service revenue and subscriber connection fees. Revenue is recognized when services have been provided. Service fees billed or paid in advance are recorded as revenue when earned. Unearned revenue is recorded as subscriber prepayments.

Financial instruments

The carrying amounts for cash, accounts receivable, accounts payable and accrued liabilities and subscriber prepayments approximate fair value due to the short maturity of these instruments. The carrying value of notes receivable from related parties approximate fair value. The carrying value of long-term debt approximates its fair value based on current borrowing rates available to the Company.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the enacted and substantively enacted income tax rates for the years in which the differences are expected to reverse. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

Stock-based compensation plans

The Company has a stock option plan for directors, senior officers and employees to acquire common shares, as described in Note 7. All stock options issued under this plan have an exercise price equal to the fair market value of the underlying shares on the date of grant. No compensation expense is recognized for these plans when stock options are issued. Any consideration paid on exercise of the stock option is credited to share capital.

Employee future benefits

The Company has a defined contribution pension plan. Employee contributions are calculated according to a specified rate applied to salary and are matched by the Company. The Company's contributions are expensed as incurred.

Use of accounting estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

3. NOTES RECEIVABLE FROM RELATED PARTIES

The notes receivable are due from certain directors and officers of the Company. They are repayable at various dates up to December 31, 2010. These notes were issued to purchase common shares of Regional and personal residences. They are secured by the common shares purchased and mortgages on personal residences. Interest is payable on the note to purchase common shares equal to the amount of dividends received on the purchased shares. The remaining notes are non-interest bearing.

4. CAPITAL ASSETS

(In thousands of dollars)

	2001			2000
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 625	\$ —	\$ 625	\$ 618
Buildings	7,979	970	7,009	5,934
Cable and telecommunications distribution systems	229,611	90,740	138,871	118,358
Microwave systems	1,067	202	865	898
Other equipment	42,059	18,207	23,852	22,578
Vehicles	6,694	3,896	2,798	3,084
Leasehold improvements	971	586	385	483
	\$ 289,006	\$ 114,601	\$ 174,405	\$ 151,953

5. DEFERRED CHARGES

(In thousands of dollars)

	2001	2000
Deferred financing costs	\$ 2,060	\$ 1,943
Deferred launch costs and other	1,307	794
	\$ 3,367	\$ 2,737

6. LONG-TERM DEBT

(In thousands of dollars)

	2001	2000
Secured debentures, bearing interest at a rate of 7.452%, repayable in monthly instalments of \$572,222 plus interest, maturing March 2006	\$ 100,139	\$ —
Secured debentures, bearing interest at rates of 7.50%, 7.95% and 8.55%.	—	68,250
Revolving term credit facility, maturing July 15, 2003	86,900	83,600
Obligations under capital leases, bearing interest at rates ranging from 5.75% to 10.43% with various repayment terms	444	3,080
	187,483	154,930
Less current portion	20,668	7,235
	\$ 166,815	\$ 147,695

Under the revolving term credit facility agreement the lenders will provide up to \$175 million in financing. Amounts owing under this facility bear interest at Bankers' Acceptance rates plus a negotiated stamping fee. The effective rate of interest for the year was 6% (2000 – 7%). The undrawn reserve was \$88.1 million at August 31, 2001. This amount is available for acquisitions and general corporate purposes.

Secured debentures and the revolving term credit facility are secured by a first, fixed and floating charge over all assets of the issuer, excluding assets pledged as security for capital lease obligations.

6. LONG-TERM DEBT (Cont'd)

Obligations under capital leases are secured by the specific leased assets. During the year the company recognized a gain of \$1,980,000 on the forgiveness of capital lease obligations with a major signal supplier.

Long term debt is repayable as follows:

(In thousands of dollars)

Year	Secured Debentures	Revolving Term Credit Facility	Capital Leases	Total
2002	\$ 6,867	\$ 13,500	\$ 301	\$ 20,668
2003	6,867	73,400	114	80,381
2004	6,867	—	16	6,883
2005	6,867	—	13	6,880
2006	72,671	—	—	72,671
	\$ 100,139	\$ 86,900	\$ 444	\$ 187,483

During the year, interest incurred on long-term debt amounted to \$12,370,000 (2000 — \$10,670,000). Interest of \$12,703,000 (2000 — \$10,801,000) was paid in the year.

7. SHARE CAPITAL

Common shares

Authorized

Regional is authorized to issue an unlimited number of common shares.

Issued and Outstanding

	2001		2000	
	Common Shares	thousands of dollars	Common Shares	thousands of dollars
Balance, beginning of year	14,743,900	\$ 151,754	14,910,100	\$ 153,630
Shares issued for cash	11,000	86	46,100	315
Shares issued in exchange for shares of acquired companies	1,745,303	23,027	—	—
Shares repurchased	—	—	(212,300)	(2,175)
Share issue cost	—	(13)	—	(16)
Balance, end of year	16,500,203	\$ 174,854	14,743,900	\$ 151,754

Regional is permitted to repurchase up to 1,585,444 of its issued and outstanding common shares at market value during the twelve-month period from January 12, 2001, to January 11, 2002. Shares repurchased will be cancelled. As at August 31, 2001, no shares had been repurchased. During fiscal 2000 Regional repurchased and cancelled 212,300 shares for a total consideration of \$2,695,000. The excess of the consideration paid over the assigned value of the shares repurchased, in the amount of \$520,000, has been charged to deficit.

On September 1, 2000, Regional issued 1,223,491 common shares with a fair value of \$16,823,000 to purchase the 29.9% of Regional Cable TV (Western) Inc. ("Western") that it did not already own.

On December 1, 2000, Regional issued 18,940 common shares with a fair value of \$200,000 in connection with its purchase of the shares of Kawartha Lakes Cablevision Inc. On July 4, 2001, Regional issued 502,872 common shares with a fair value of \$6,004,292 in connection with its purchase of the shares of Community Cable Limited.

7. SHARE CAPITAL (Cont'd)

Stock option plan

Regional has a stock option plan under which it may grant options for up to 1,500,000 common shares to directors, senior officers and employees. As at August 31, 2001, there were 1,316,306 common shares reserved for issuance in connection with Regional's stock option plan. The exercise price of each option equals the market price of Regional's common shares on the date of the grant and an option's maximum term is 10 years. Options can be granted at any time upon approval of the Board of Directors and vest immediately for directors and at 20% per year for senior officers and employees.

A summary of the status of Regional's stock option plan and changes in that plan are as follows:

	2001		2000	
	Common Shares	Weighted Average Exercise Price	Common Shares	Weighted Average Exercise Price
Outstanding, beginning of year	518,000	\$ 10.71	366,100	\$ 8.56
Granted	280,000	11.30	213,000	13.85
Exercised	(11,000)	7.86	(46,100)	6.83
Forfeited	(22,000)	12.95	(15,000)	13.85
Outstanding, end of year	765,000	\$ 10.91	518,000	\$ 10.71
Exercisable, end of year	264,000	\$ 8.80	208,800	\$ 7.55

As at August 31, 2001, Regional has the following options outstanding and exercisable under its Stock Option Plan:

Number of Options Outstanding	Number of Options Exercisable	Option Price	Expiry Date
24,000	24,000	\$ 5.00	August 31, 2005
32,600	32,600	6.25	September 30, 2006
88,600	88,600	6.50	September 1, 2007
134,000	73,000	11.25	June 11, 2008
23,800	9,400	10.55	September 10, 2008
182,000	36,400	13.85	September 14, 2009
280,000	—	11.30	October 12, 2010
765,000	264,000		

Subsequent to the year end, 205,000 additional options were issued at an option price of \$8.25, with an expiry date of October 4, 2011.

Shareholder Rights Plan

During the year the shareholders approved a Shareholder Rights Plan (the "Rights Plan"). The Rights Plan will expire at the close of the annual meeting of shareholders in 2004.

The rights issued under the Rights Plan, one right per common share, become exercisable only when a party acquires or intends to acquire 20% or more of Regional's outstanding common shares without complying with the "Permitted Bid" provision of the Rights Plan or without approval of the Board of Directors. Each right, upon exercise, would entitle a rights holder, other than the acquirer, to purchase one common share of Regional at a 50% discount to the market price at that time.

8. INCOME TAXES

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented below:

(In thousands of dollars)	2001	2000
Future income tax liabilities (assets)		
Capital assets	\$ 21,068	\$ 20,040
Subscriber costs	1,492	2,035
Deferred charges	51	(327)
Other	19	(505)
Net future income tax liability	\$ 22,630	\$ 21,243

The income tax expense reflects an effective tax rate which differs from the combined federal and provincial rates for the following reasons:

(In thousands of dollars)	2001	2000
Income before income taxes and non-controlling interest	\$ 12,122	\$ 12,403
Combined federal and provincial statutory income tax rates	42.60%	42.72%
Income tax calculated at statutory rates	5,164	5,298
Increase (decrease) in taxes resulting from		
Amortization of subscriber costs	1,565	1,180
Other non-deductible expenses	100	214
Recognition of previously unrecognized benefits of capital loss carryforwards	(844)	—
Capital tax	1,452	1,146
Effect of future tax rate reductions	(3,083)	(322)
Other	(282)	—
Provision for income taxes	\$ 4,072	\$ 7,516

The Company's provision for income taxes is comprised of

Current income taxes	2,741	1,376
Future income taxes	1,331	6,140
	\$ 4,072	\$ 7,516

Income taxes of \$1,590,000 (2000 — \$1,123,000) were paid in the year.

As at August 31, 2001, the Company has approximately \$58,200,000 in capital losses. These losses can be carried forward indefinitely and applied against future capital gains. The potential benefit associated with these losses has not been reflected in the financial statements.

9. BUSINESS ACQUISITIONS

Acquisitions are accounted for by the purchase method and their results of operations are included in these financial statements from the date of each acquisition.

Regional acquired 100% share ownership of the following cable systems during the year ended August 31, 2001:

Systems Acquired (Former Operator)	Acquisition Date	Purchase Price
(In thousands of dollars)		
Pontiac Cable Limited	October 1, 2000	\$ 665
Kawartha Lakes Cablevision Inc.	December 1, 2000	2,101
Riverview Cable Limited	February 1, 2001	366
Cottagers Cable Limited	March 1, 2001	1,226
Village Cablesystems Ltd.	March 1, 2001	973
Reddens Cable TV Limited	March 1, 2001	1,921
Duclos Cablevision Ltée	July 1, 2001	5,776
Community Cable Limited	July 1, 2001	14,055
		\$ 27,083

In addition, on September 1, 2000, Regional issued 1,223,491 common shares at a price of \$13.75 per share to acquire the 29.9% of Western that it did not already own (\$16,823,000).

On September 1, 2001, Regional and the above noted companies amalgamated and continued operations as Regional Cablesystems Inc.

The fair values of the assets acquired and the liabilities assumed were as follows:

(In thousands of dollars)	
Bank indebtedness	\$ (60)
Capital assets	2,255
Subscriber costs	37,944
Working capital other than cash	(899)
Future income taxes	(56)
Non-controlling interest eliminated	4,722
	43,906
Plus bank indebtedness assumed	60
Less shares issued	(23,027)
Net cash paid in current year	\$ 20,939

9. BUSINESS ACQUISITIONS (Cont'd)

Regional acquired 100% share ownership of the following cable systems during the year ended August 31, 2000:

Systems Acquired (Former Operator)	Acquisition Date	Purchase Price
(In thousands of dollars)		
Earlton Cable Vision Ltd.	November 1, 1999	\$ 225
Wood Lake Cable Ltd.	November 1, 1999	5,200
Keremeos Cable Ltd.	November 1, 1999	900
A.J. Gale Limited	February 1, 2000	4,000
Supreme Cable Ltd.	February 1, 2000	3,519
Image Cable Systems Ltd.	February 1, 2000	18,800
Winnipeg River CATV Ltd.	June 1, 2000	300
Shawville Cable Co. Ltd.	July 1, 2000	690
		\$ 33,634

On September 1, 2000, Regional and the above noted companies amalgamated and continued operations as Regional Cablesystems Inc. The fair values of the assets acquired and the liabilities assumed were as follows:

	(In thousands of dollars)
Cash	\$ 230
Capital assets	21,998
Subscriber costs	12,921
	35,149
Less	
Cash acquired	(230)
Working capital other than cash	(76)
Future income taxes	(24)
Non-current liabilities assumed	(1,185)
Net cash paid	33,634
Less deposit	(2,438)
Net cash paid in current year	\$ 31,196

10. PER-SHARE INFORMATION

	2001		2000	
	Basic	Fully Diluted	Basic	Fully Diluted
Net income for the year	\$ 0.50	\$ 0.49	\$ 0.31	\$ 0.31
Cash flow from operations				
for the year	\$ 1.79	\$ 1.72	\$ 1.99	\$ 1.94

Cash flow from operations for the year is defined as net income adjusted for non-cash items before changes in non-cash working capital.

Per-share data is calculated using the weighted average number of common shares outstanding of 16,070,501 (2000 – 14,888,434). The fully diluted per-share calculations assume that all share options were exercised at the later of the beginning of the year or when issued, and the funds derived therefrom had been invested to produce an annual return of 5% (2000 – 6%), before applicable income taxes. The amount of income imputed, after income taxes, was \$229,000 (2000 – \$181,000).

11. COMMITMENTS AND CONTINGENCIES

Commitments

- (i) At August 31, 2001, the Company is committed under the terms of operating leases, primarily for office space, for annual minimum payments as follows:

	(In thousands of dollars)
2002	\$ 380
2003	377
2004	246
2005	199
2006	170
	<u>\$ 1,372</u>

- (ii) On August 20, 2001, Regional and Amtelecom Group Inc. executed a binding letter of agreement with respect to the purchase by Regional of all of the outstanding shares of Amtelecom Inc. and AGI Cablevision Inc. at a purchase price of approximately \$67,000,000. Amtelecom Inc. provides telephone service through more than 21,400 network access lines in Ontario. AGI Cablevision Inc. provides cable television service to approximately 10,300 cable subscribers and provides Internet service to approximately 2,600 Internet subscribers in Ontario.
- (iii) On May 24, 2001, Regional and Skyway Cablevision Limited ("Skyway") executed a binding letter of intent with respect to the purchase by Regional of all of the outstanding shares of Skyway at a purchase price of approximately \$200,000. Skyway provides cable television service to approximately 195 subscribers in Newfoundland.
- (iv) On April 30, 2001, Regional and Constance Bay Cable Television Limited ("Constance Bay") executed a binding letter of intent with respect to the purchase by Regional of all of the assets of Constance Bay at a purchase price of approximately \$1,162,000. Constance Bay provides cable television service to approximately 850 subscribers in Ontario.
- (v) On April 30, 2001, Regional and Hometown Cablesystems Inc. ("Hometown") executed a binding letter of intent with respect to the purchase by Regional of all the assets of Hometown at a purchase price of approximately \$1,573,000. Hometown provides cable television service to approximately 1,150 subscribers in Ontario.

Contingencies

The Company is involved in matters involving litigation arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to litigation to be material to these financial statements.

12. SUBSEQUENT EVENTS

Effective September 1, 2001, the shareholders of Regional exchanged their common shares for the same number of common shares of Persona Inc. and Regional has become a wholly owned subsidiary of Persona Inc.

13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

THE NATURE OF THE NEW PERSONA

As approved by Regional's shareholders on August 22, 2001, the corporate restructuring has created a new holding company – Persona Inc. Current Regional shareholders have exchanged their shares on a one-for-one basis for common shares of Persona. Regional's assets and liabilities remain with Regional, which became a wholly owned subsidiary of Persona.

We also intend to rename Regional in a form that incorporates "Persona." The new name will better reflect Regional's core competencies, its identity as a leading-edge service provider, and its vision for future development.

The Board of Directors approved the restructuring arrangement on July 13, 2001, subject to the agreement of the shareholders, and the approval of the Court and securities and telecommunications regulators. Guidelines for proceeding were then established and expected. The new arrangement has resulted in the following:

- Regional's Canadian cable and related communications business are now held in a separate subsidiary from other future business interests.
- The regulated and any future non-regulated subsidiaries of Persona have greater flexibility to develop and finance their businesses independently of one another.

- Persona holds, directly or indirectly, the same assets, and is subject to the same basic liabilities, as Regional was prior to the restructuring.
- Regional has preserved its capital tax loss carry forwards of approximately \$58.2 million.
- The restructuring occurred on a tax-deferred basis for Canadian federal income tax purposes for most shareholders.
- At the special shareholder meeting, shareholders opposing the restructuring were able, upon compliance with certain conditions, to dissent and be paid the "fair value" of their Regional common shares in accordance with the CBCA and the interim court order
- The Persona common shares have the same rights, privileges, restrictions, and conditions as the Regional common shares, the Persona stock options and Persona employee share option plan ("ESOP") are the same as the Regional stock options and Regional ESOP, and the Regional shareholder rights plan has been replaced with a shareholder rights plan for Persona with the same terms and conditions.

The Toronto Stock Exchange has provided conditional listing approval for the Persona common shares. The CRTC has provided its consent to the transfer of the ownership of Regional to Persona under the Broadcasting Distribution Regulations.

"From regional champion to international performer."

persona
INC

ABSTRACT

The authors present a new method for determining the optimal time for the onset of the monsoon season. The method is based on the analysis of the monthly mean rainfall data for the period 1950–99. The results show that the optimal time for the onset of the monsoon season is in the month of June. This is in agreement with the results of previous studies, which have shown that the monsoon season begins in June and ends in September.

KEY WORDS: monsoon; rainfall; onset; time; optimal; method.

1. Introduction

The monsoon is a seasonal wind system that brings a large amount of rainfall to the tropical regions of the world. It is one of the most important features of the climate system, and its onset and end are of great importance for the population living in the monsoon region.

The monsoon season is defined as the period during which the monsoon winds are dominant. The onset of the monsoon season is the first day of the month in which the monsoon winds are dominant. The end of the monsoon season is the last day of the month in which the monsoon winds are dominant.

The monsoon season is a seasonal phenomenon that occurs in the tropical regions of the world. It is characterized by a change in the direction of the wind, which brings a large amount of rainfall to the monsoon region.

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PERSONA IS THE NEW PERSONA

As part of the deep and sustained effort to reposition the company's core strategy, Persona has implemented a number of key changes to its corporate structure, including the creation of a new operating unit, Persona Regional, which will focus on the company's regional business. This new unit will be responsible for the company's regional business, including the company's regional sales and marketing efforts, and will be managed by a dedicated regional manager.

Persona Regional will be responsible for the company's regional business, including the company's regional sales and marketing efforts, and will be managed by a dedicated regional manager. This new unit will be responsible for the company's regional business, including the company's regional sales and marketing efforts, and will be managed by a dedicated regional manager.

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Persona

AUDITORS

Ernst & Young LLP,
St. John's, Newfoundland

LEGAL COUNSEL

Benson • Myles,
St. John's, Newfoundland

McCarthy Tetrault,
Toronto, Ontario

MAILING DATES

Quarterly reports to shareholders of Persona Inc. are scheduled for mailing during the second week of January, April and July, 2002.

2001 ANNUAL GENERAL MEETING

The annual general meeting of shareholders will take place at 11:00 a.m. (Toronto time) on December 5, 2001 at the Royal York Hotel, Toronto, Ontario.

INTERNET WEB SITE

www.regionalcable.com or
www.personainc.ca

INVESTOR & ANALYST ENQUIRIES

Financial and related information about the Company (and, for periods subsequent to August 31, 2001, information about the Company or Persona Inc.) including annual and quarterly reports, annual information forms and press releases, are available electronically on the Internet through SEDAR or at our web site. Alternatively, please contact:

Secretary
Regional Cablesystems Inc.
17 Duffy Place,
P.O. Box 12155, Station A
St. John's, Newfoundland
A1B 4L1

Telephone: 709 754-3775
Facsimile: 709 754-3883
e-mail: jroberts@regionalcable.com

TRADING STATISTICS

Pursuant to a corporate reorganization, effective September 1, 2001, common shares of Regional Cablesystems Inc. were exchanged on a one-to-one basis for common shares of Persona Inc., and Regional Cablesystems Inc. became a wholly owned subsidiary of Persona Inc. Common shares of Persona Inc., which are included in the TSE 300 Index, began trading on the Toronto Stock Exchange under the symbol "PSA" effective September 10, 2001. On the same date, common shares of Regional Cablesystems Inc., which had traded on the Toronto Stock Exchange under the symbol "REG", ceased trading.

Fiscal Year				
Ended August 31	High	Low	Close	Volume
2001	\$ 14.20	\$ 8.01	\$ 8.60	7,287,758
2000	\$ 20.95	\$ 8.50	\$ 12.25	11,932,459
1999	\$ 17.85	\$ 9.50	\$ 14.20	4,787,846
1998 (1)	\$ 13.25	\$ 9.30	\$ 11.50	3,127,800

(1) The Company's common shares began trading on the Toronto Stock Exchange on February 23, 1998.

CORPORATE HEAD OFFICE

Regional Cablesystems Inc.
and Persona Inc.
17 Duffy Place, St. John's
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Facsimile: 709 754-3883

CHAIRMAN'S OFFICE

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and Persona Inc.
295 Robinson Street
Suite 300, Oakville
Ontario L6J 1G7
Telephone: 905 338-3133
Facsimile: 905 338-3137

BOARD OF DIRECTORS**Peter Grant***

Senior Partner
McCarthy Tetrault
Toronto, Ontario

Terry A. Lyons*

President and Managing Partner
B.C. Pacific Capital Corporation
Vancouver, British Columbia

Gary D. Kain

Chairman
Regional Cablesystems Inc.
and Persona Inc.
Oakville, Ontario

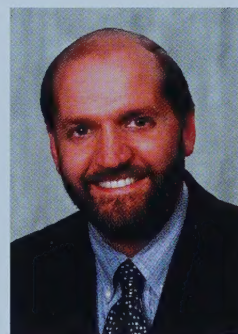
Willard H. Yuill*

Chairman and Chief Executive Officer
The Monarch Corporation
Medicine Hat, Alberta

*Member of Audit Committee

OFFICERS

Gary D. Kain
Chairman



Brendan J. Paddick
President and Chief
Operating Officer



James D. Roberts
Vice President
Finance & Administration,
and Secretary



John R. Reid
Vice President
Marketing &
Communications

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Facsimile: 905 338-3137

OPERATING REGION MANAGEMENT



Dimitri Stathis

General Manager
Montreal, Quebec

Central Division

(Southeastern Ontario
& Quebec)



Robert Everest

General Manager
Sudbury, Ontario

Northern Division

(Northern Ontario)



Michele English

General Manager
St. John's,
Newfoundland

Atlantic Division

(Newfoundland
& Labrador)



Fred P. Hosker

Vice President and
General Manager
Edmonton, Alberta

Western Division

(Manitoba, Saskatchewan,
Alberta & British Columbia)

REGISTRAR AND TRANSFER AGENT

Requests for information concerning lost share certificates, address changes, or other shareholder account inquiries should be directed to our registrar and transfer agent:

CIBC Mellon Trust Company
320 Bay Street, P.O. Box 1
Toronto, Ontario M5H 4A6
Telephone: 416 643-5589
Facsimile: 416 643-5570

PRIMARY BANKERS

Bank of Montreal
The Toronto-Dominion Bank

1997

1998

1999

2000

2001

2002

2003

2004

2005

2006

2007

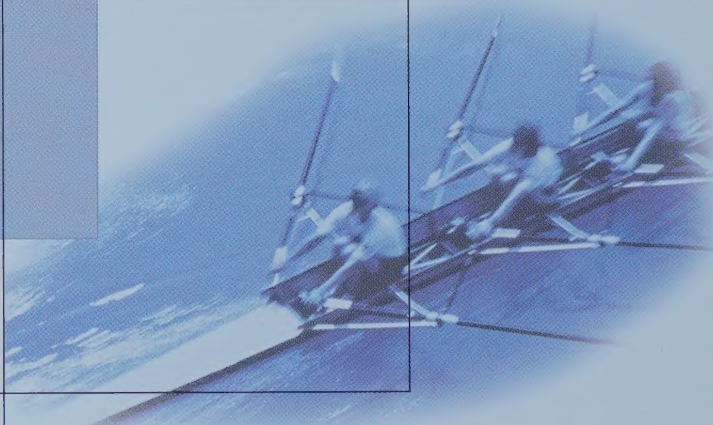
2008

2009

2010



Regional
CABLESYSTEMS



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